2016 ANNUAL REPORT

雅高控股
ARTGO HOLDINGS

ARTGO HOLDINGS LIMITED
雅高控股有限公司

(incorporated in the Cayman Islands with limited liability)

STOCK CODE: 3313

CONTENTS

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of ArtGo Holdings Limited ("ArtGo Holdings" or the "Company", together with its subsidiaries referred to as the "Group"), I am pleased to present the audited consolidated results of the Group for the year ended 31 December 2016.

WU Jing
Chairman and Executive Director

FINANCIAL RESULTS

During the year under review, the revenue of the Group was RMB1,059 million, representing an increase of 219% from RMB332 million in the previous year, meanwhile, the gross profit of the Group decreased by RMB79.55 million from RMB178 million in the previous year to RMB98.22 million. The increase in revenue was mainly due to the new bulk trading business in 2016, which contributed to sales revenue of RMB940 million. Whereas, the decrease in gross profit was mainly because of the lethargic macro-economic situations in 2016, as a result of which the Group had re-organised its engineering orders, thereby cutting down on engineering business that involved a high level of advanced funds and credit risks in an effort to control the credit risk, ensure safety of the funds and increase the turnover efficiency. This causes the sales of stone materials with high gross profit margin to decrease by 65%; while the average gross profit margin was approximately 2.9% in respect of bulk trading, which accounted for 88.9% of the sales revenue of the Group. Affected by both internal and external factors, the net loss of the Group during the year under review was RMB546,000, down by 101% as compared to RMB75.41 million in the previous year.

BUSINESS REVIEW

Since its establishment, ArtGo Holdings has been committed to product research and development, innovation of its existing production technologies and enhancing its production capability, thereby proactively developing and expanding its marketing channels. In recent years, the Group had focused on integration and merger and acquisition of marble mines and addition of black and beige to its off-white marble stones lineup, with an aim to enrich color tone variety of its products so as to enhance its competitive edges in the stone materials sector. Since last year, the Group had also begun to set foot in the supply chain financing business. With efforts made over the year under review, the Group has successfully acquired a "black marquina" ("黑白根") mine in Guangxi and an "ocean fossil" ("海洋化石") mine in Guizhou. The "ocean fossil" is a very rare type of stone materials, while "black marquina" is among the world's top 10 types of marbles, dubbed as gold in the marble world. Due to its high level of liquidity in the market, all materials thus produced therefrom has an extremely high level of realizability. On top of that, the Group had successfully bid for a commercial land of over 300 acres at a traffic hub in Jiangsu Province and intends to set up as logistics warehouse base and construction of stone materials processing factory, thereby laying a foundation for logistics distribution, efficient delivery of stone materials and launching supply chain financing business in the future.

CHAIRMAN'S STATEMENT

Prospects

The Company will actively explore and expand its business in the marble mines that generates revenues to the Company as well as complement its existing products at the same time. Efforts will also be made to enhance the Group's influence and sales capabilities in the industry by leveraging advantages of its own brand iMage and integrating valuable mine resources. Meanwhile, the Group will further expand its supply chain financing business for enhanced profitability.

WU Jing
Executive Director and Chairman

Hong Kong, 31 March, 2017

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ms. WU Jing *(Chairman and Acting Chief Executive Officer)*
Mr. GU Weiwen *(Vice Chairman)*
Mr. ZHANG Jian
Mr. LI Dingcheng
Dr. LEUNG Ka Kit

Non-executive Directors

Mr. GU Zengcai

Independent Non-executive Directors

Mr. LIU Jianhua
Mr. WANG Hengzhong
Mr. HUI Yat On

AUTHORISED REPRESENTATIVES

Ms. WU Jing
Mr. GU Weiwen

AUDIT COMMITTEE

Mr. WANG Hengzhong *(chairman)*
Mr. LIU Jianhua
Mr. HUI Yat On

REMUNERATION COMMITTEE

Mr. HUI Yat On *(chairman)*
Ms. WU Jing
Mr. WANG Hengzhong

NOMINATION COMMITTEE

Ms. WU Jing *(chairman)*
Mr. LIU Jianhua
Mr. HUI Yat On

COMPANY SECRETARY

Mr. ZHAO Zhipeng

REGISTERED OFFICE

PO Box 309
Ugland House
Grand Cayman KY1-1104
Cayman Islands

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

9th Floor
PICC Life Insurance Building
No.8 Fuyou Road
Huangpu District
Shanghai, PRC

13/F & 23/F, Building B
Haifu Center
No. 599 Sishuidao
Huli District
Xiamen, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

16th Floor
Nan Fung Tower
173 Des Voeux Road Central
Hong Kong

LEGAL ADVISORS AS TO HONG KONG LAWS

Patrick Mak & Tse

AUDITORS

Ernst & Young

CORPORATE INFORMATION

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road
George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

Industrial and Commercial Bank of China Limited
Xiamen Branch, Huli Sub-branch
No. 31–33 Xinglong Road
Huli District
Xiamen
PRC

China Citic Bank
Xiamen Branch, Fushan Sub-branch
No. 1222 Xiahe Road
Siming District
Xiamen
PRC

STOCK CODE

3313

WEBSITE

www.artgo.cn

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Marble and Mining Businesses

The Group has developed two operating mining areas in the Yongfeng Mine, namely North #1 and North #4 mining areas since 31 December 2015. There are eight benches in the North #1 mining area and six benches in the North #4 mining area. Benefiting from a favourable geographical environment and the ideal geological conditions of the Yongfeng Mine and based on the good geological conditions which we laid on our mine, we are very confident in the mining of Yongfeng Mine in the future. However, the extraction process was slow down in 2016 as compared to previous year. In 2016, the Group has extracted a total of 9,739 cubic metres of marble blocks in the Yongfeng Mine whereas a total of 36,065 cubic metres of marble blocks were extracted in 2015. During the year, the Group noticed that there were other competitors in the industry producing similar marbles in the nearby mines without mining permit in the Yongfeng County and selling their products under certain product brands owned and registered by the Group and had affected the sales performance of the Group. As a consequence, the extraction process was adjusted accordingly to match the sales volume of marble products produced from the Yongfeng Mine. The Group has been in contact with the local authority in dealing with the said matter and expects appropriate actions will be taken by the local authority in rectifying the situation and restoring the normal process of the extraction activities.

Despite the above circumstance, the Group shall continue the operations in the Yongfeng Mine, Zhangxi Mine and Lingnan Mine but adopting a more conservative investment strategy. In the past years, the Group's sales mainly relies on the products produced from the Yongfeng Mine which mainly produces white and grey colored limestone. During the year, the Group has been striving to develop its international business by enriching its range of export products on an ongoing basis to enhance its competitiveness in the international market. In late 2016, the Group was presented with opportunities to invest in Evoke Investment and Chancellor Investment that owns mining rights of mining property that produces white strip in black marble and wooden sea fossil marble respectively. The Board is of a view that it is in the best interest of the Company and its shareholders as a whole to diversify its portfolio of products and strengthen the overall competitiveness of the Group in the stone market.

Apart from the acquired majority-stake in mines in the year, subsequent to the reporting date, the Group entered into a conditional acquisition agreement for the proposed acquisition of 49% equity interest in a group of company which holds a mining right to a limestone mine in Xianggelila City in Yunnan Province at a consideration of RMB280 million. The proposed acquisition may enable the Group to further develop its current mining business of limestones and to enhance its pricing power and competitiveness in this market, thus provides an opportunity to the Group to increase its profitability and to expand its market share, which will in turn benefit the Company and its shareholders as a whole. At the date of this report, the Group is still in the course of performing its due diligence review including but not limited to the verification and appraisal of the mining resources and value of the acquiring business.

The Group also entered into memorandum of understand to acquire 24.5% equity interest in a company engaged in iron ore mining, magnetic separation and tailings rare earth related services. The proposed acquisition enables the Group to diversify its existing business by tapping into other mineral resources business. No definitive agreement has been entered into by the Group as at the date of this report.

As at the date of this report, the Group has a network of 136 distributors, covering 80 cities across 30 provinces and autonomous regions in the PRC. In addition, the Group is still consolidating and expanding the results of its direct sales channels. To provide customers with more comprehensive marble products, we are also actively seeking marble resources that can bring synergies to the Group and provide a useful complement to existing products in terms of colours.

MANAGEMENT DISCUSSION AND ANALYSIS

Commodities Trading and Other Related Businesses

Apart from sale of marble stones, the Group commenced the trading of commodities which are mainly petrochemical products. The revenue generated from this business segment in the year amounted to RMB942.3 million. Although the profit margin of the trading of commodities was not as high as the sale of marble stones, such new trading business has contributed positively to the Group's overall results in the year. The trading of commodities laid a foundation for the Group's plan of the development of modern logistics business including material processing (including processing of marble stones), transportation and warehousing as well as supply chain finance business. As such, the Group will continue to pursue the commodities trading business in the coming future as one of the business segments.

During the year, the Group successfully bid for the land use rights of the three parcels of land in Xuyi County, Jiangsu Province, the PRC through the public auction held by Xuyi Land Resources Bureau during which the land was offered for sale by way of tender at a total bidding price of approximately RMB205 million. Upon completion of the transaction, the Group plans to develop the land into a modern logistic park for the abovementioned business.

Corporate Development

In March 2016, the Group acquired a company whose principal assets consist of five commercial units situated in the prime area in Puxi, Shanghai, the PRC ("Properties") at a final adjusted consideration of approximately RMB101.8 million. The properties are currently leased out and upon the expiry of the existing leases, the Company intends to use the Properties as the headquarters of the Group and the exhibition store of marble stones. The Group considered that the properties on one hand enjoy the advantageous geographical location of being situated in a city which is the prime financial and commercial center of the PRC leading to a higher appreciation potential and on the other hand, it enables the Group to promote its corporate image for capturing the customers group in the first-tier city.

FINANCIAL REVIEW

Revenue

In 2016, the Group recorded an operating revenue of approximately RMB1,059.5 million (2015: RMB332.2 million), representing an increase of approximately RMB727.3 million (or 219%) compared to that of 2015, mainly due to: (i) increase in the sales of petrochemical products; and (ii) the impact of increase in sales revenue was partially offset by the decrease in sales revenue of marble products of approximately RMB215.0 million as a result of decrease in sales volume.

(a) *Sales by Product Categories*

The following table sets out the breakdown of the Group's sales and the percentage of sales by product categories:

	2016			2015		
		Approximate percentage	**Gross profit margin**		Approximate percentage	Gross profit margin
	RMB'000	**%**	**(%)**	RMB'000	%	(%)
Marble blocks	**57,805**	**5.5**	**80.9**	131,118	39.5	74.0
One-side-polished slabs	**31,750**	**3.0**	**45.4**	94,312	28.4	50.0
Cut-to-size slabs	**27,645**	**2.6**	**35.1**	106,787	32.1	31.4
Commodity trading	**942,257**	**88.9**	**2.9**	–	–	–
Total	**1,059,457**	**100.0**	**9.3**	332,217	100.0	53.5

MANAGEMENT DISCUSSION AND ANALYSIS

(b) Sales Volume and Average Selling Price

The following table sets out the sales volume and average selling prices of marble blocks, one-side-polished slabs and cut-to-size slabs:

Sales volume	**2016**	2015
Marble blocks (m^3)	**13,191**	25,896
One-side-polished slabs (m^2)	**148,741**	440,521
Cut-to-size slabs (m^2)	**106,408**	357,368
Trading of commodities petrochemical products (Ton)	**201,917**	–
Average selling price		
Marble blocks (RMB/m^3)	**4,382**	5,063
One-side-polished slabs (RMB/m^2)	**213**	214
Cut-to-size slabs (RMB/m^2)	**260**	299

For the year ended 31 December 2016, the unit selling price of marble blocks decreased by approximately 13.5% as compared to that of 2015, mainly due to: (i) facing with the increasingly fierce competition, the Group has concentrated on developing new customers. To maintain a long-term business relationship, the Group offered more competitive prices; (ii) in order to satisfy additional market demand for color and texture at a more affordable price, the Group's marble blocks sales mix was extended to cater such needs in the lower price range, leading to the lower average unit selling price.

The unit selling price of one-side-polished slabs is stable compared to that of 2015 as there are no significant change of one-side-polished slabs' selling strategy.

The unit selling price of cut-to-size slabs decreased approximately by 13.0% compared to 2015, mainly due to more cut-to-size slabs sold in 2016 were purchased from external rather than produced by the Group. Most of corporate customers during the year were engaged in renovation constructions and had different grade requirements for our products from primary corporate customers engaged in real estate development in the corresponding period in 2015, leading to adjustments made to our product mix and relatively lower unit selling price.

Cost of Sales

For the year ended 31 December 2016, the Group's cost of sales amounted to approximately RMB961.2 million, including processing costs, which represented approximately 1.1% of the total cost of sales; marble blocks mining costs, which represented approximately 1.1% of the total cost of sales; transportation costs, which represented approximately 0.3% of the total cost of sales; and costs of products purchased from third parties, which represented approximately 97.5% of the total cost of sales. To diversify the existing business of and to explore new markets with significant growth potential, the Group commenced its commodities trading business of petrochemical product from 2016, with cost of sales amounted to RMB914.9 million.

For the year ended 31 December 2016, the cost of sales for marble segment decreased by approximately RMB108.2 million, which is in line with decreased sales of marble products.

MANAGEMENT DISCUSSION AND ANALYSIS

(a) *Processing costs*

Processing costs of the Group represented the processing fees paid to processors for processing marble blocks into one-side-polished slabs and further polishing one-side-polished slabs into cut-to-size slabs. The processing fees decreased by RMB32.6 million is in line with decrease in production volume of one-side-polished slabs and cut-to-size slabs.

(b) *Marble blocks mining costs*

In 2016, marble blocks mining costs of the Group mainly included mining labour costs, materials consumption, fuel, power, depreciation of production equipment and amortization of mining rights. The marble blocks mining cost per unit increased nearly by 13.0% compared to that of 2015, mainly due to the significant reduction in production volume in 2016, which resulted in a substantial increase in the fixed costs per unit product produced.

(c) *Transportation costs*

Transportation costs included: (i) long-distance transportation fees for transporting marble blocks from the blocks yard of the Yongfeng Mine to Shuitou, Fujian, the processing centre; and (ii) short-distance transportation fees for transporting marble blocks to the transit yard and transportation allocation between the warehouse in Shuitou and processors according to the production and processing plan of the Group. Transportation costs accounted for approximately 5.6% and 5.6% of the production costs of the marble business for 2016 and 2015, respectively.

Gross Profit and Gross Profit Margin

During 2016, the Group realized a gross profit amounted to RMB98.2 million, decreased by approximately RMB79.5 million as compared to that of 2015. The gross profit margin in 2016 was approximately 9.3%, while the gross profit margin in 2015 was approximately 53.5%. The significant decrease in gross profit margin was mainly due to the sales of petrochemical products which accounted for 88.9% of the total sales, but with a lower gross profit margin which in turn lead to the decrease in the average gross profit margin of the Group.

Other Income and Gains

Other income and gains mainly included interest income from bank deposits, rental income derived from five commercial units of Shanghai Yunyi and penalty income as lessee terminated lease prematurely. Interest income amounted to approximately RMB9.3 million, rental income amounted to RMB3.7 million and penalty income of RMB2.0 million in 2016.

Other Expenses

Other expenses mainly included provision for impairment provision of bad debt, depreciation cost and purchase price allocation derived from five commercial units of Shanghai Yunyi, fixed asset disposal loss and foreign exchange loss. In 2016, provision for impairment of bad debt amounted to approximately RMB5.1 million, depreciation cost and penalty amounted to approximately RMB5.6 million, loss on the disposal of fixed asset amounted to RMB4.0 million and foreign exchange loss amounted to approximately RMB3.7 million.

Selling and Distribution Expenses

Selling and distribution expenses, mainly consisted of salaries of the Group's sales and distribution staff, travelling expenses, advertising costs and office rents. Selling and distribution expenses decreased by RMB10.2 million, from approximately 34.9 million for the year ended 31 December 2015 to approximately RMB24.7 million for the year. The decrease was in line with decreased sales of marble products, resulting in the decrease in the selling and distribution expenses.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative Expenses

Administrative expenses, mainly consisted of salaries of administrative staff, consultancy fees, amortization expense of share option scheme, mineral resources compensation fee and depreciation expense. Administrative expenses decreased by RMB7.3 million, from approximately 42.7 million for the year ended 31 December 2015 to approximately RMB35.4 million for the year, The decrease in administrative expenses was mainly due to the streamlining of Group's organization structure, leading to the decrease in staff costs.

Finance Costs

Finance costs mainly included interests on bank loans, interests on bills receivable discounted, interest on deferred payment from the acquisition of mining rights and related interests of rehabilitation. Finance costs for the year ended 31 December 2016 amounted to RMB24.3 million and increased by approximately RMB7.7 million as compared to that of 2015. The increase was mainly attributable to the increase in interests on bank loans and bills discounted.

HUMAN RESOURCES AND REMUNERATION POLICY

The emolument policy of the employees of the Group is determined by the management on the basis of their contribution, qualifications and competence.

As at 31 December 2016, the total number of full-time employees of the Group was 288 (31 December 2015: 349). Employee costs (including the Directors' remunerations) totally amounted to approximately RMB23.2 million for 2016 (2015: approximately RMB42.2 million). Taking into account the strategic goal of the Group, operating results, efforts and contributions made by each of our executive Directors, senior management and employees, and for the purposes of recognizing their value, motivating for better performance and skills, maintaining the Company's fast-growing development and achieving its long and short-term goals, the remunerations are in line with the market performance and their qualifications and abilities, and makes adjustment according to varied percentage. Accordingly, the staff costs had a decrease in 2016. The Group recruited and promoted individual persons according to their strength and development potential. The Group determined the remuneration packages of all employees including the Directors with reference to individual performance and current market salary scale.

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in a defined central pension scheme managed by the relevant local government authorities in Shanghai, Xiamen, Chongqing, Yongfeng, Xuyi and Dongtai where the Group is required to contribute a certain percentage of the relevant part of the payroll of these employees to the central pension scheme. The local government authorities are responsible for the entire pension obligations payable to the retired employees and the Group has no obligation for the payment of retirement benefits beyond the annual contributions. In 2016, the contributions of approximately RMB1.3 million (2015: approximately RMB2.1 million) were charged to the profit and loss account as they became payable in accordance with the rules of the central pension scheme.

MANAGEMENT DISCUSSION AND ANALYSIS

INCOME TAX EXPENSE

Income tax expense decreased by RMB15.0 million from approximately 25.2 million for the year ended 31 December 2015 to approximately RMB10.2 million for the year. The decrease was mainly due to the decrease in taxable profits generated by the Group's subsidiaries in Mainland China.

LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The net loss attributable to owners of the Company during the year amounted to approximately RMB0.5 million, compared to net profit which amounted to RMB75.4 million for the year ended 31 December 2015. The decreased net profits were in line with the decrease in revenue arising from sales of marble products in 2016.

INVENTORIES AND TURNOVER DAYS

The Group's inventories increased by approximately 147.1%, from approximately RMB72.6 million as at 31 December 2015 to approximately RMB179.4 million as at 31 December 2016. It was primarily due to an increase in stock of marble products for further processing. The inventory turnover days of the Group decreased from 166 in 2015 to 47 in 2016. Such improvement in inventory turnover days was the result of the Group's effort in production planning and policy transformation to maintain a relatively rational inventory level.

TRADE RECEIVABLES AND TURNOVER DAYS

The Group's trade receivables and bills receivable decreased from approximately RMB63.3 million as at 31 December 2015 to approximately RMB23.2 million as at 31 December 2016. The decrease was in line with the decrease in the sales of marble products. The turnover days of trade receivable decreased from 68 to 15 in 2016. The decrease in trade receivables turnover days was primarily due to the Group had set strict credit standard on trading business of petrochemical products and granted shorter credit term to trading customers.

TRADE AND BILLS PAYABLES

The Group's trade and bills payables decreased by approximately RMB24.4 million as compared to approximately RMB177.6 million as at 31 December 2015 and reached approximately RMB153.2 million as at 31 December 2016. The decrease was primarily due to the decrease in procurement of materials from third parties.

NET CURRENT ASSETS

Net current assets of the Group decreased from approximately RMB778.7 million as at 31 December 2015 to approximately RMB120.6 million as at 31 December 2016, which was primarily due to decrease in cash and bank balances with the increase in capital expenditures.

MANAGEMENT DISCUSSION AND ANALYSIS

CURRENT RATIO

The current ratio, being current assets over current liabilities, was 1.3 as at 31 December 2016 (31 December 2015: 2.9). The decrease in current ratio was primarily due to the decrease in cash and bank balances and increase in current portion of interest-bearing bank loans.

BORROWINGS

The Group generally finances its operations with internally generated cash flows and banking credit facilities. As at 31 December 2016, the Group had total bank loans and other borrowings of RMB202.7 million (31 December 2015: RMB127.6 million).

GEARING RATIO

The Group's gearing ratio equals to its net debt (total debts net of cash and bank balances) divided by total equity. Total debt is defined as interest-bearing bank and other loans and it excludes liabilities incurred for working capital purposes. As at 31 December 2016, the gearing ratio was 18.0% (2015: Nil).

CAPITAL EXPENDITURE

Capital expenditures are used to purchase mining rights, land, property, plant and equipment. In 2016, the Group's expenditures are used for: (i) purchase of property, plant and equipment aggregated to approximately RMB316.5 million; (ii) purchase of mining rights related to Zhangxi Mine and Lingnan Mine aggregated to approximately RMB2.4 million; (iii) acquisition of Evoke Group and Chancellor Group aggregated to approximately RMB610.4 million;and (iv) for the prepaid land leasements for acquiring three parcels of land use rights in Xuyi amounted to RMB172.4 million.

FOREIGN EXCHANGE EXPOSURE

The Group's businesses are located in Mainland China and most of the transactions were denominated in RMB, except for an amount due to the certain cash at banks that is denominated in HK$ and US$. As such, the Group has limited exposure to any significant foreign currency exchange risks. The Directors does not expect any material impact on the Group's operations caused by any foreign currency fluctuations. No financial instruments were employed by the Group for hedging purpose during the year.

PLEDGE OF ASSETS

As at 31 December 2016, the prepaid land lease payment amounted to approximately RMB13.5 million and mining rights of Zhangxi Mine and Lingnan Mine amounted to approximately RMB116.6 million and time deposits of RMB94.2 million were pledged as security for obtaining the certain bank loan granted to the Group and issuing of bank acceptance.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2016, the Group had capital commitments of approximately RMB198.4 million for acquisition of property, plant and equipment and land use rights, which were contracted but not provided for (2015: RMB23.6 million). As at 31 December 2016, the Group had no material contingent liabilities.

USE AND CHANGE OF USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds from the Company's listing and issue of new shares of the Company (the "Shares") amounted to approximately HK$833.0 million (equivalent to approximately RMB655.5 million). Save for the details set out below, the net proceeds has been applied in accordance with the proposed applications set out in the section headed "Future plans and use of proceeds" contained in the Prospectus. As at 31 December 2016, the Company had utilized approximately RMB605.3 million of net proceeds from the Global Offering, of which the allocation is different from the original allocation. The Company originally planned to use approximately 40% of the net proceeds (approximately RMB262.2 million) to finance for further capital expenditure of the Yongfeng Mine while, as at 31 December 2016, the Company has only utilized RMB9.2 million out of the RMB262.2 million of the net proceeds from the Global Offering allocated for the capital expenditure of Yongfeng Mine due to the reasons set out in the section "Business Review". The details of the original allocation of the net proceeds, the revised allocation of the net proceeds and the final utilization of the net proceeds as at 31 December 2016 are set out in the table below. The remaining proceeds as at 31 December 2016 were approximately RMB50.2 million and they were deposited with licensed banks as time deposits in Mainland China and Hong Kong, respectively.

Uses	Original allocation	Revised allocation	Utilized for the year ended 31 December 2016	Utilized up to 31 December 2016	Remaining balance after revised allocation
	RMB million	RMB million	RMB million	RMB million	RMB million
Capital expenditure of Yongfeng Mine	262.20	9.20	–	9.20	–
Construction of slab processing facilities	196.70	196.70	178.20	196.70	–
Expansion of sales channels	65.55	65.55	15.10	34.65	30.90
Acquisition of marble resources	65.55	65.55	–	65.55	–
Working capital and other general corporate purposes	65.55	65.55	27.8	46.26	19.29
Acquisition of Evoke Investment	–	49.56	49.56	49.56	–
Acquisition of Chancellor Investment	–	203.44	203.4	203.44	–
Total:	655.55	655.55	474.06	605.36	50.19

Save for the abovementioned changes, there is no other change of the use of the net proceeds from the Global Offering.

MANAGEMENT DISCUSSION AND ANALYSIS

MAJOR ACQUISITION AND DISPOSAL OF ASSETS AND MERGER

Acquisition of entire interest in Shanghai Yunyi

On 18 March 2016, the Group completed the acquisition of entire interests in Shanghai Yunyi pursuant to the equity transfer agreement entered into by the Group and an independent vendor on 3 February 2016. The principal assets of Shanghai Yunyi are five commercial units with a total area of 2,431.18 square meters situated in the prime area in Puxi, Shanghai, the PRC. The purchase consideration for the acquisition was in the form of the allotment and issue of 260,000,000 ordinary shares by the Company at the date of acquisition, amounting to HK$265,200,000 (equivalent to approximately RMB218,830,000) in aggregate. Pursuant to an supplementary agreement dated 30 December 2016 entered into between the Company and Mr. Wang Jiangze, the purchase consideration was adjusted from RMB218,830,000 to RMB101,790,000 arising from the over-valuation of the commercial properties of Shanghai Yunyi as at the acquisition date, the shortfall of RMB117,040,000 arising from the adjusted consideration shall be injected to the Group in cash by Mr. Wang Jiangze within one year. The corresponding shareholder made share capital injection of RMB22,187,000 on 31 December 2016 and fully settled the remaining balance subsequent to the reporting period. For details of the transactions, please refer to the announcements of the Company dated 3 February 2016 and 30 December 2016.

Acquisition of entire interest in Evoke Investment

On 30 December 2016, the Group completed the acquisition of entire interest in Evoke Investment from Mr. Zhang Tao, an independent individual and the then owner of Evoke Investment. Evoke Investment indirectly owns 51% equity interest in Guiguan Stone. Guiguan Stone owns the mining permits of two white stripe in black marble mines, located in Guanyang County, Guilin City, Guangxi Province, which will be expired on 7 December 2018 and 4 March 2018, respectively. Evoke Group are principally engaged in mining exploration of marble products. The purchase consideration of HK$300,265,000 (equivalent to approximately RMB268,586,000) for the acquisition was in the form of cash, amounting to RMB49,559,000 and the allotment and issue of 318,000,000 ordinary shares by the Company at the date of acquisition, amounting to HK$244,860,000 (equivalent to approximately RMB219,027,000) in aggregate. For details of the transactions, please refer to the announcement of the Company dated 19 December 2016.

Acquisition of entire interest in Chancellor Investment

On 30 December 2016, the Group completed the acquisition of entire interest in Chancellor Investment from Mr. Dong Zhichao, an independent individual and the then owner of Chancellor Investment. Chancellor Investment indirectly owns 80% equity interest in Sanxin Stone. Sanxin Stone owns the mining permit of a marble mine, located at Dejiang County, Tongren City, Guzhou Province with an area of mine field of approximately 0.252 square kilometres, which will be expired on 1 January 2019. Chancellor Group are principally engaged in mining exploration of marble products. The purchase consideration for the acquisition was in the form of cash, with RMB240,000,000 paid on the acquisition date.

Save as otherwise, the Group did not have any material acquisition or disposal during the year ended 31 December 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK

Looking forward, the Group will continue its plan in developing its international business by enriching its range of export products on an ongoing basis to enhance its competitiveness in the international market. The successful acquisition of the interests in Wenshi Mine and Dejiang Mine in 2016 was a crucial move in realizing this plan as these newly acquired mines produce black with white thread mixed and wooden thread mixed limestones which are well-recognized in the international stone market.

The Group will continue identifying suitable domestic mineral reserves of other colours and enrich the range of derivative products to meet the different demands from our clients. On the marketing and distribution side, the Group plans to redeploy its distributor network by reducing the number of distributors in non-key cities whereas to building up more linkages to the potential distributors in those key cities. Our number of distributors growth from 126 distributors located in 95 cities last year to 136 distributors located in 80 cities this year.

With the success in bidding the three parcels of land in Xuyi County, Jiangsu Province, the PRC this year, it is a step forward in developing the modern logistics, material processing (including processing of marble stones) and supply chain finance business.

Coupled with the above business development, the Company is confident in its prospect. The management will continue to strike for a balance between the persistent growth of the Group and the effective and the efficient use of its resources.

GUIGUAN RESOURCES AND RESERVES

GUIGUAN MINE

Our Guiguan Mine is located at Industrial Zone, Wenshi Town, Guanyang County of Guangxi Province, China. The table below summarizes key information related to our current mining permit for the Guiguan Mine.

Holder	Guiguan Stone
Nature of resource	marble
Covered area	approximately 0.0808 square kilometre
Issuance date	7 December 2015
Expiration date	7 December 2018
Permitted production volume	132,300 tons per annum

The Guangxi Province Bureau of Land and Resources assessed a mining right fee of RMB1.75 million for a period of three years.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table summarizes the marble resources of our Guiguan Mine, estimated as of 31 December 2016 according to the PRC classification of solid mineral resources ("Chinese Standards").

Resources	**Millions of cubic meters**
Indicated	1.6
Inferred	0.3
Total	1.9

The Group did not have exploration, development and production activities for Guiguan Mine in 2016 (2015: None) as the Group acquired the interest in this mine in late 2016.

WENSHI MINE

Our Wenshi Mine is located at Wenshi Town, Guanyang County of Guangxi Province, China. The tables below summarize key information related to our current mining permit for the Wenshi Mine.

Holder	Guiguan Stone
Nature of resource	marble
Covered area	approximately 0.4587 square kilometre
Issuance date	4 March 2015
Expiration date	4 March 2018
Permitted production volume	120,500 tons per annum

The Guangxi Province Bureau of Land and Resources assessed a mining right fee of RMB1.59 million for a period of three years.

The following tables summarize the marble resources of our Wenshi Mine, estimated as of 31 December 2016 under Chinese Standard.

Resources	**Millions of cubic meters**
Indicated	6.4
Inferred	2.8
Total	9.2

The Group did not have exploration, development and production activities for Wenshi Mine in 2016 (2015: None).

MANAGEMENT DISCUSSION AND ANALYSIS

The Wenshi Mines enjoy favourable topographical and geological conditions, which allows the Group to ramp up production scale easily and quickly. Such conditions, together with the convenient location of the Wenshi Mine and its ready access to utilities, help the Group to achieve a lower operating cost and a higher profit margin.

DEJIANG MINE

Our Dejiang Mine is located at Guan Jia Fen, Dejiang Town of Guizhou Province, China. The table below summarizes key information related to our current mining permit for the Dejiang Mine.

Holder	Sanxin Stone
Nature of resource	marble
Covered area	approximately 0.252 square kilometre
Issuance date	1 July 2015
Expiration date	1 January 2019
Permitted production volume	30,000 cubic meters per annum

The Guizhou Province Bureau of Land and Resources assessed a mining right fee of RMB0.55 million for a period of every three and a half year.

The following table summarizes the marble resources of our Dejiang Mine, estimated as of 31 December 2016 under Chinese Standards.

Resources	Millions of cubic meters
Indicated	1.3
Inferred	0.8
Total	2.1

The Group did not have exploration, development and production activities for Dejiang Mine in 2016 (2015: None) as the Group acquired the interest in this mine in 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

YONGFENG MINE

Our Yongfeng Mine is located in the Yongfeng County of Jiangxi Province, China and is connected by a 72-kilometer county road to the Yongfeng exit of a newly constructed expressway, which connects us to China's national transportation system. The table below summarizes key information related to our current mining permit for the Yongfeng Mine.

Holder	Jueshi Mining
Nature of resource	marble
Covered area	approximately 2.0 square kilometres
Issuance date	5 February 2013
Expiration date	5 February 2018
Permitted production volume	250,000 cubic metres per annum

The Jiangxi Province Bureau of Land and Resources assessed a mining right fee of RMB55.8 million for a period of 30 years. After paying RMB18.6 million in January 2013, we obtained a mining permit with an initial term of five years from 5 February 2013 to 5 February 2018. The term of our mining permit can be extended for another 25 years according to applicable PRC laws and regulations upon completion of our payment of the remaining mining right fee of RMB9.3 million plus accrued interest settled by four equal annual installments within the next year. The first two installments of RMB18.6 million became due in March 2014 and March 2015 respectively and were paid by the Group's own funds.

The following table summarizes the marble resources and reserves of our Yongfeng Mine, estimated as of 31 December 2016 under the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves ("JORC Code").

Resources	**Millions of cubic meters**
Measured	51.2
Indicated	46.6
Inferred	8.8
Total	106.6

Resources	**Millions of cubic meters**
Proved	23.0
Probable	21.0
Total	44.0

MANAGEMENT DISCUSSION AND ANALYSIS

The estimated resources and reserves of the Yongfeng Mine as of 31 December 2016 were arrived after taking into account the estimated resources and reserves of the Yongfeng Mine as of 30 September 2013 minus the amount of extraction in the course of the Group normal and routine mining activities carried out during the period from 1 October 2013 to 31 December 2016 and have been substantiated by the following two persons: (i) Mr. NIE Zhiqiang, the vice president of Jueshi Mining, our wholly-owned subsidiary, who has over 20 years of experience in mining production (including exploration and extraction process); and (ii) Mr. LI Dingcheng, our executive director, who has over 24 years of experience in the mineral and geological exploration industry and holds a bachelor's degree in engineering, majoring in geology and mineral resources survey and is a titled senior engineer. For details of the biographical information of Mr. LI Dingcheng and Mr. NIE Zhiqiang, please refer to the prospectus of the Company dated 16 December 2013 (the "Prospectus").

The estimated resources and reserves of Yongfeng Mine as of both 30 September 2013 (as disclosed in the Prospectus) and 31 December 2016 (as disclosed in this annual report) were based on the resources and reserves under the JORC Code, i.e. there was no change in the reporting standard used in arriving at these estimates on the respective dates. The methods used to estimate mineral resources and the parameters used for the estimated resources and reserves of the Company as of 30 September 2013 and 31 December 2016 were identical.

The Company did not have exploration activities in 2016 (2015: none), and the capital expenditure of the Yongfeng Mine was nil in the year (2015: RMB4.6 million).

ZHANGXI MINE

Located at Yongfeng County of Jiangxi Province, China, about 50 km from the expressway from Fuzhou via Yongfeng to Ji'an, Zhangxi Mine enjoys an access to Changning (Nanchang — Ningdu) expressway which is already open to traffic, thus making it possible for the Group to get connected to China's national transportation system. The table below summarizes key information related to our current mining permit for the Zhangxi Mine.

Holder	Ji'an Mining
Nature of resource	marble
Covered area	approximately 0.7 square kilometre
Issuance date	23 July 2010
Expiration date	23 July 2015, which can be extended to 23 July 2018 according to applicable PRC laws and regulations
Permitted production volume	20,000 cubic metres per annum

The Jiangxi Province Bureau of Land and Resources assessed a mining right fee of RMB1.615 million for a period of three years.

MANAGEMENT DISCUSSION AND ANALYSIS

The table below summarizes the marble resources of Zhangxi Mine estimated as of 31 December 2015 according to Chinese Standards.

Resources	Millions of cubic meters
Measure	7.1
Indicated	18.4
Inferred	4.2
Total	29.7

The Group did not have exploration, development and production activities for Zhangxi Mine in 2016 (2015: None).

LINGNAN MINE

The Lingnan Mine is located at Yongfeng County of Jiangxi Province, China. Lingnan Mine is provided with an asphalt highway extending to Yongfeng County, about 65 km from 105 National Highway and Beijing-Kowloon Railway, connecting to the China's national transportation system. The table below summarizes key information related to the current mining permit for the Lingnan Mine.

Holder	Ji'an Mining
Nature of resource	marble
Covered area	approximately 0.2 square kilometre
Issuance date	23 July 2010
Expiration date	23 July 2015, which can be extended to 23 July 2018 according to applicable PRC laws and regulations
Permitted production volume	10,000 cubic metres per annum

The Jiangxi Province Bureau of Land and Resources assessed a mining right fee of RMB0.81 million for a period of three years.

MANAGEMENT DISCUSSION AND ANALYSIS

The table below summarizes the marble resources of Lingnan Mine estimated as of 31 December 2016 according to the Chinese Standards.

Resources	Millions of cubic meters
Indicated	2.3
Inferred	1.2
Total	3.5

The Group did not have exploration, development and production activities for Lingnan Mine in 2016 (2015: None).

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHICAL DETAILS

The Board currently consists of nine Directors, including five executive Directors, one non-executive Director and three independent non-executive Directors. The table below sets forth information regarding our Board.

Name	Age	Management Position
Ms. WU Jing	31	Executive Director, Chairman and Acting Chief Executive Officer
Mr. GU Weiwen	47	Executive Director and Vice Chairman
Mr. ZHANG Jian	42	Executive Director
Mr. LI Dingcheng	54	Executive Director
Dr. LEUNG Ka Kit	40	Executive Director
Mr. GU Zengcai	54	Non-Executive Director
Mr. LIU Jianhua	52	Independent non-Executive Director
Mr. WANG Hengzhong	48	Independent non-Executive Director
Mr. HUI Yat On	57	Independent non-Executive Director

EXECUTIVE DIRECTORS

Ms. WU Jing (伍晶), aged 31, has been appointed as the executive Director on 9 March 2016 and is currently Chairman of the Board and Acting Chief Executive Officer of the Company. Ms. Wu is also responsible for promotion and marketing affairs of the Company. Ms. Wu has 7 years' experience in corporate brand management. In 2010, Ms. Wu founded a management consulting firm, which provided consultancy services in relation to brand promotion, sales and public relations to the local and overseas organizations and corporations since February 2010, including but not limited to Information Services Department of The Government of the Hong Kong Special Administrative Region of the People's Republic of China, Hong Kong Tourism Board, Standard Chartered Bank (Hong Kong) Limited, Hang Seng Bank Limited, DTZ Holdings PLC, Sinopec (Hong Kong) Limited, Suning Commerce Group Co., Ltd., Powerchina Resources Ltd.. In June 2008, Ms. Wu obtained her bachelor's degree in biological technology from Wuhan University. She then obtained her master of science degree in environmental engineering from the Hong Kong University of Science and Technology and her master degree in industrial engineering and logistics management from the University of Hong Kong in November 2009 and November 2010, respectively. In 2015, she was awarded the "Ten Outstanding New Hong Kong Young Persons (十大傑出新香港青年)". She is currently the standing director of Jiangsu Women Association* (江蘇聯會婦女會) and the director of Jiangsu Youth Association* (江蘇青年總會). As of the date of this annual report, save as disclosed above, Ms. Wu did not hold directorship in any listed public companies in the past three years.

DIRECTORS AND SENIOR MANAGEMENT

Mr. GU Weiwen (顧偉文), aged 47, has been appointed as the executive Director and Chief Executive Officer on 9 March 2016, and re-designated as Vice Chairman of the Company on 1 December 2016. Mr. Gu has nearly 27 years' experience in trading, investment and financing. Prior to joining the Group, Mr. Gu served as the wholesale executive of Shanghai Textiles Ltd.* (上海紡織品總公司) from July 1990 to July 1992. From August 1992 to September 1994, Mr. Gu served as the manager of the apparel department of Orient Shopping Center Ltd.* (上海東方商廈有限公司). From October 1994 to October 2000, Mr. Gu served as the general manger of Shanghai Huifeng Textile Group Ltd.* (上海惠豐毛紡織集團有限公司). From January 2001 to October 2011, Mr. Gu served as the general manager of Chengdu Runheng Investment Ltd.* (成都潤衡投資有限公司). From October 2011 to February 2016, Mr. Gu served as assistant to the chairman of China Dredging Environment Protection Holdings Limited (stock code: 871), a company listed on the Stock Exchange. Mr. Gu obtained the diploma from Commerce College of the Shanghai University (上海大學商學院) (now known as School of Economics, the Shanghai University) majoring in trading economics in July 1990. In 1991, Mr. Gu obtained the qualification as economic analyst as confirmed by the appraisal committee after the discussion by the vocation reform office of Shanghai Textiles Ltd.* (上海紡織品公司). In 1993, Mr. Gu obtained the qualification as an assistant economic analyst as confirmed by the appraisal committee for junior occupational positions of Shanghai Huifeng Textile Group Ltd.* (上海東方商廈有限公司). As of the date of this annual report, save as disclosed above, Mr. Gu did not hold directorship in any listed public companies in the past three years.

Mr. ZHANG Jian (張健), aged 42, has been appointed as the executive Director on 9 March 2016 and is currently the deputy general manager of the Company and the general manager of the marble production and processing department and international sales department of the Company, where he is responsible for mine production management, marble processing and production and operations management and international sales management of the Group. Mr. Zhang joined the Group in October 2012 and has nearly 16 years' experiences in stone exploitation, stone processing, quality control and international trade of stone. Prior to joining the Group, Mr. Zhang served at unit 32525 of the People's Liberation Army of the People's Republic of China in Xiamen (廈門中國人民解放軍32525部隊) from December 1993 to December 1997. From March 2003 to March 2006, he served as a procurement officer of Best Cheer Stone Group Ltd.* (高時石材集團有限公司). From March 2006 to October 2012, he served as the procurement manger of Xiamen Zhonglianfa Import and Export Co., Ltd.* (廈門中聯發進出口有限公司). As of the date of this annual report, save as disclosed above, Mr. Zhang did not hold directorship in any listed public companies in the past three years.

DIRECTORS AND SENIOR MANAGEMENT

Mr. LI Dingcheng (李定成), aged 54, is currently an executive Director and the manager of geology, production and environmental safety of our Group. He joined our Group on 2 March 2012 and is mainly responsible for overseeing production safety in the Yongfeng Mine, compiling mining geological studies and evaluating mining policies. Mr. Li has over 27 years of experience in the mineral and geological exploration industry, with a particular focus on mine safety evaluation and management, based on his site visits of various mines, and understanding and analysis of the exploration and extraction process. Mine safety and environmental evaluation is an indispensable process for mine exploration and extraction and requires a concrete and substantial understanding of the techniques and procedures of mine exploration and extraction. Prior to joining our Company, from 1985 to 2000, Mr. Li had worked as an assistant engineer, engineer, senior engineer and the project leader of Geological Engineering Investigation Institute of National Building Materials Bureau, where he was responsible for the inspection, exploration planning and evaluation of various mineral resources including marbles and granite, the environmental impact evaluation on mines and cement factory construction projects, including a detailed review and analysis on marble mines and writing a report named The Manual on Chinese National Marble and Granite Decorative Stone Resources Distribution and Forecast Atlas. From February 2003 to June 2006, Mr. Li was the technical manager of the Environmental Impact and Safety Evaluation Centre of the Sino-African Geological Engineering Exploration Research Institute, where he was responsible for conducting safety assessment for outdoor and underground mining sites, including the review and assessment of mining exploration and extraction processes. For the evaluation of safety and the environmental impact of each mine, Mr. Li generally had to spend a period spanning from three to twelve months conducting site visits at the relevant mine, where he would study the characteristics of the mine and analyze the workflow of the exploration and extraction processes before devising a technical mining exploration and extraction proposal in compliance with the relevant laws and regulations. From August 2006 to December 2008, Mr. Li was a project manager at the Environmental Impact Evaluation Centre of China Research Academy of Environmental Sciences, where he was responsible for matters relating to environmental impact evaluation and planning of mines, which covered an analysis of the daily operation of mines and how the mining exploration and extraction process impacts on the environment. In carrying out such analysis, Mr. Li conducted site visits at the mines to inspect the characteristics of the mines, studied the workflow of the exploration and extraction processes, designed proposals to implement mining exploration and extraction activities in compliance with the relevant laws and regulations. From December 2008 and February 2010, he was the chief engineer and technical leader of the environmental impact assessment department and the person-in-charge of the safety assessment department in Beijing Zhong'an Quality Assessment Center, where he was responsible for the environmental evaluation of mines, which covered an analysis of the daily operation of mines and how the mining exploration and extraction process impacts on the surrounding environment. From February 2010 to February 2012, Mr. Li worked as the chief engineer, the technical director of No. 2 evaluation department and the manager of the projects department in Century Safety Technology Co., Ltd. (Beijing), where he was responsible for the safety evaluation of marble and granite quarries, which entailed a detailed review and analysis of the marble and granite exploration and extraction process. In carrying out such review and analysis, Mr. Li conducted site visits at the marble and granite mines to inspect the characteristics of the mines, and monitored the workflow of the exploration and extraction processes. Mr. Li graduated from Chengdu College of Geology (currently known as Chengdu University of Technology) with a bachelor's degree in engineering in July 1985, majoring in geology and mineral resources survey. Mr. Li was awarded the title of senior engineer in 1998. He is currently a certified safety engineer in the PRC. Mr. Li also has substantial achievement in stone theoretical research. Mr. Li received several awards on the research of stone theory. The project named PRC Natural Marble, Granite Resources and Research, which was led by Mr. Li, was awarded the second prize of 1992 yearly scientific and technological progress issued by China Construction Materials and Geological Prospecting Center. He also published the article named PRC Natural Marble, Decorative Granite Stone Resources Forecast and Analysis during the Third National Youth Geologists Symposium. As of the date of this annual report, save as disclosed above, Mr. Li did not hold directorship in any listed public companies in the past three years.

DIRECTORS AND SENIOR MANAGEMENT

Dr. LEUNG Ka Kit (梁迦傑), aged 40, has been appointed as the executive Director on 8 June 2016. Dr. Leung obtained a doctorate degree and a master's degree in education management at the Tarlac State University （太歷國立大學） in the year of 2013 and 2011 respectively. Dr. Leung also obtained a master degree of science in environmental science at the Hong Kong University of Science and Technology in 2009 and a bachelor degree of science in health and safety at Curtin University of Technology in 2006. Dr. Leung is the leading auditor for ISO9001 and ISO14001 quality management system and has almost 15 years of management experience in various multinational enterprises, focusing on nuclear power, thermal power, hydraulic engineering, quality management, environmental safety and comprehensive enterprise system management. Save as disclosed above, Dr. Leung did not hold any directorship in the past 3 years in any other listed companies. Dr. Leung is the spouse of a current executive Director, Ms. Wu Jing, save as disclosed, Dr. Leung is and was not connected with any Director(s), senior management or substantial or controlling shareholder(s) (as defined in the Rules Governing the Listing of Securities on The Stock Exchange) of the Company, other than the relationship arising from his directorship with the Company.

NON-EXECUTIVE DIRECTOR

Mr. GU Zengcai (顧增才), aged 54, has been appointed as non-executive Director of the Company on 8 June 2016. Mr. Gu graduated in the profession of industrial accounting school from Jiangsu Radio and TV University （江蘇廣播電視大學） in 1986. Mr. Gu worked as the director of audit department and vice manager of finance department in Zhuhai Port Co., Ltd. （珠海港股有限公司） (formerly known as Zhuhai Fuhua Group Co., Ltd. （珠海富華集團股份有限公司）) (a company listed as A share with stock code 000507) from October 1993 to August 1994. From September 1994 to April 2002, Mr. Gu worked in China Resources Bank of Zhuhai Co., Ltd. （珠海華潤銀行） (formerly known as Zhuhai Commercial Bank) (the "CR Bank") and served as the deputy director of Zhuhai Huayin City Credit Cooperatives （珠海華銀城市信用 社）, the branch president of CR Bank, and the manager of the capital department, finance department and credit department in the headquarter of the CR Bank. Mr. Gu was also appointed as the executive director of the Zhuhai Holdings Investment Group Limited (a company listed on The Stock Exchange with stock code 00908) (formerly known as Jiuzhou Development Company Limited) from October 2003 to August 2012 and the deputy chairman of the board of directors in the same company from August 2006 to August 2012. Mr. Gu obtained the certificate of the accountant and auditor in the year of 1992 and the certificate of Chinese Public Accountant in 1993. Save as disclosed above, Mr. Gu did not hold any directorship in the past 3 years in any other listed companies.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LIU Jianhua (劉建華), aged 52, was appointed as an independent non-executive Director on 9 December 2013. Mr. Liu is also a member of the audit committee and the nomination committee of the Company. Mr. Liu has over 20 years of experience in managing construction projects involving glass and stones. From 1985 to 1990, Mr. Liu was an assistant engineer and subsequently an engineer of National Building Material Bureau Technology Information Institute. From 1990 to 2006, he was the vice secretary-general, secretary-general and vice president of China Architectural and Industrial Glass Association, respectively. Since 2006, Mr. Liu has served as the vice president of China Stone Material Association. Since 2010, he has been an independent non-executive director of Zhuzhou Kibing Group Stock Co., Ltd., a company listed on the main board of Shanghai Stock Exchange (stock code: 601636). Mr. Liu graduated from East China University of Science and Technology with a bachelor's degree in engineering in July 1985. He obtained the qualification of professor-grade senior engineer from SASAC in October 2009. As of the date of this annual report, save as disclosed above, Mr. Liu did not hold directorship in any listed public companies in the past three years.

DIRECTORS AND SENIOR MANAGEMENT

Mr. WANG Hengzhong (王恒忠), aged 48, was appointed as an independent non-executive Director on 9 December 2013. Mr. Wang is also the chairman of the audit committee and a member of the remuneration committee of the Company. Mr. Wang has over 17 years of experience in auditing and accounting. Mr. Wang is currently a partner of the auditing department of the Grant Thornton Group. From August 1998 to December 2007, Mr. Wang was the chief accountant of Shanghai Jiahua Accountancy Co., Ltd.. From December 2007 to September 2009, he was the legal representative of Shanghai Junfu Pan Chen Zhang Jiahua Accountancy Co., Ltd. (a company formed from the merger of Shanghai Pan Chen Zhang Joint Accounting Firm and Shanghai Jiahua Accountancy Co., Ltd.). From September 2009 to July 2012, he was a partner of Jingdu Tianhua Accountancy Co., Ltd. (Shanghai Branch), as a result of the partnership between Shanghai Junfu Pan Chen Zhang Jiahua Accountancy Co., Ltd. and Jingdu Tianhua Accountancy Co., Ltd.. In December 2011, Jingdu Tianhua Accountancy Co., Ltd. (Shanghai Branch) was reorganized and the Shanghai branch of Grant Thornton Accounting Firm (a special general partnership) was established. Mr. Wang has been its partner since January 2013. Mr. Wang graduated from Shanghai Institute of Building Materials (currently known as Tongji University) with a junior college diploma in July 1990, majoring in financial accounting. Mr. Wang obtained a master's degree in professional accountancy from the Chinese University of Hong Kong in December 2006, and obtained an Executive Master of Business Administration from Shanghai Advanced Institute of Finance of Shanghai Jiao Tong University in July 2015. He was also awarded the certificate of qualification for independent directors by the Shanghai Stock Exchange in April 2013. Mr. Wang is currently an executive member of the council in Shanghai Young Entrepreneurs Association, a member of Jiu San Society and a member of Shanghai Jia Ding District Political Consultative Committee. He is a certified public accountant in the PRC and is currently a member of the disciplinary committee of the Association of Certified Public Accountants of Shanghai. He was appointed as independent director of Shanghai Ganglian E-Commerce Holdings Co., Ltd. (listed on the Shenzhen Stock Exchange with stock code: 300226.SZ) on 20 May 2014, and appointed as independent director of Great Wall Movie and Television Company Limited (listed on the Shenzhen Stock Exchange with stock code: 002071.SZ) on 14 December 2015. As of the date of this annual report, save as disclosed above, Mr. Wang did not hold directorship in any listed public companies in the past three years.

Mr. HUI Yat On (許一安), aged 57, has been appointed as independent non-executive Director of the Company on 8 June 2016, and is chairman of the Remuneration Committee, member of the Audit Committee and member of the Nomination Committee of the Company. Mr. Hui graduated from the Chinese University of Hong Kong with a bachelor degree in business administration in December 1982. In November 2004, Mr. Hui obtained a master's degree in professional accounting from Hong Kong Polytechnic University. Mr. Hui has become a member of the Hong Kong Institute of Certified Public Accountants in December 1986. He is also a member of the Hong Kong Chiu Chow Chamber of Commerce. Mr. Hui was an independent non-executive director of Peace Map Holding Limited, a company listed on the Stock Exchange (stock code: 0402), from 10 August 2012 to 21 July 2016. Mr. Hui has previously served as the executive director, company secretary and senior administrative staff of several Hong Kong listed companies. Mr. Hui is currently working as a chief operation officer of a Hong Kong listed company. Mr. Hui has nearly three decades of experiences in the field of corporate finance and financial services. Save as disclosed above, Mr. Hui did not hold any directorship in the past 3 years in any other listed companies.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. NIE Zhiqiang (聶志強), aged 49, is currently the vice president of Jueshi Mining in charge of production, responsible for mining plans confirmation, product quality control and product transportation of our Group. Mr. Nie joined our Group on 18 June 2012, and has over 23 years of experience in mining production. Prior to joining our Group, Mr. Nie was responsible for the mining production and management of various companies. He worked in Shanxi Sida Construction Materials Co., Ltd from June 1991 to October 1997, serving as general staff, supervisor of quality control, head of production and person-in-charge of mining operation, respectively, responsible for the quality control and assurance of granite mines and production management, including a detailed analysis of the granite exploration and extraction process. He worked in Shanxi Huajun Stone Enterprise Co., Ltd. from November 1997 to November 2000, serving as production manager and mining head, responsible for the production, exploration and extraction management of a mine and a mine processing plant, including marbles and stones. From March 2001 to August 2004, Mr. Nie was the mine and factory manager of Shanxi Evergreen Stone Co., Ltd., responsible for mineral resource management and formulation and execution of granite mining production plans. From March 2005 to June 2009, he was the assistant manager and the mine manager of the mineral resource department of Universal Marble & Granite (Dongguan) Co., Ltd., responsible for mining and management, including the daily management of the marble mining and resources department, evaluating mine acquisition targets by assessing the nature and quality of marble and granite in mines, formulating marble mine exploration plans and proposals to facilitate mining production, organizing and coordinating mining exploration and extraction activities, and organizing training for mining personnel on the technical, safety and environmental protection aspects of marble mines. From February 2010 to June 2012, he served as the vice general manager of Hubei Era Mining Co., Ltd., responsible for overseeing marble mining affairs and the operation of a marble mine processing plant, which covered the marble exploration and extraction process.

Mr. ZHANG Jiyan (張繼燕), aged 45, is currently the deputy manager of the technology and quality research department and the deputy chief of the building preparatory group for the stone processing plant of the Company, where he is responsible for supervising mining and stone processing, as well as identifying processing contractors and coordinating the specific preparatory efforts for building the Company's own stone processing plant. He has almost 20 years of experience in marble processing and quality control and before joining the Company, he worked for various marble processing and trading companies including, among others, Xiamen Yongwen Stone Materials Factory* (廈門市永文石材廠), Baodeli Stone Materials Factory* (廈門市開元區包德力石板材廠), Fujian Shuitou Shijing Yongxing Stone Materials Factory* (福建水頭石井永興石材廠) (now known as Fuji an Quanzhou Huayi Stone Materials Limited* (福建省泉州市華益石材有限公司) and Zhangzhou Riquan Inspection Centre* (漳州日泉檢品中心), a subsidiary of Xiamen Riquan Trading Company* (廈門日泉貿易公司). During which, Mr. Zhang obtained experience in coordinating and guiding exploration and mining, which has enabled him to communicate and work effectively with the senior managers at the mines. He had also been involved in the development of a series of professional guidelines including raw material quality standards and slab quality standards, whereby the quality of the raw materials from mines, which are required at the processing stage, is strictly under control to ensure the best cutting quality from such raw materials for the purpose of an optimal production-sales relationship and a maximized use of stone resources. Mr. Zhang joined the Company in August 2011 when he was involved in the total management, operations and product quality control at the then newly acquired Yongfeng Mine. Subsequently, he acted as a key executive in charge of production and sales coordination and quality control, during which, he equipped with his professional competence in manufacturing processes and technologies and in both the national and the international quality control standards, closely supervised, guided and, on a continuing basis, improved the exploration, extraction and production process of contractors from the perspective of marketability, customer satisfaction and technical application. Mr. Zhang has administered stringent control over the quality of raw materials, semi-finished goods and final products of the Company having regard to market demand and product positioning. At the same time, Mr. Zhang formulates strategies and optimal improvement plans in line with market demand and in doing so, he has produced good results from the coordination efforts in production and sales.

DIRECTORS AND SENIOR MANAGEMENT

Mr. QIU Yuyuan (邱宇元), aged 39, is currently in charge of the Group's financial planning, financial budget and management issues. Mr. Qiu joined the Group in September 2011, and has more than 10 years of experience in financial management. Prior to joining the Group, Mr. Qiu worked in Xiamen Overseas Chinese Electronic Co., Ltd., Xiamen Tsann Kuen Corporation Limited, and Lenovo Mobile Communication Technology Limited from August 2000 to February 2005, from March 2005 to March 2006, and from March 2006 to April 2010, respectively, and was in charge of relative financial auditing, business process reengineering, credit management and financial analysis in those companies. Mr. Qiu obtained the qualification of National Intermediate Accountant in 2004.

Mr. ZHANG Min (張敏), aged 45, is currently the Chief Operation Officer of the Company and is responsible for the general management of the day-to-day operation of the Company, improvement of the management standards of all departments of the Company, and facilitating the coordination of different departments of the Company. Mr. Zhang has over 15 years of marketing management experience in the construction materials and stone industry. From July 2012 to January 2014, Mr Zhang served as the sales director of the Company, during which he creatively propounded the industry-wide chain operation model, becoming the general designer of the model, and making a remarkable contribution to the development of the industry. He currently serves as the marketing consultant for the Mining Committee of the Stone Chamber Of Commerce of All-China Federation of Industry and Commerce* (全國工商聯石材業商會礦山委員會).

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

The Company is committed to achieving high standards of corporate governance to safeguard the interests of our Shareholders and to enhance the corporate value, accountability and transparency of the Company.

The Company has adopted the code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as its own code to govern its corporate governance practices. The Company has been conducting its business according to the principles of the CG Code during the year ended 31 December 2016.

During the year ended 31 December 2016, the Company has complied with the code provisions as set out in the CG Code, except for the deviation from code provision A.2.1 as explained in the relevant paragraph of this corporate governance report.

The Company will periodically review and improve its corporate governance practices with reference to the latest development of corporate governance.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Having made specific enquiry of all Directors, the Directors have confirmed that they have complied with the required standard of dealings as set out in the Model Code throughout the year ended 31 December 2016.

The Company has also established the written guidelines no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by relevant employees of the Group who is likely to possess inside information in relation to the Company or its securities. No incident of non-compliance of the Employees Written Guidelines by the relevant employees was noted by the Company.

BOARD OF DIRECTORS

As at the date of this annual report the Board comprises nine members, consisting of five executive Directors, one non-executive Director and three independent non-executive Directors.

Executive Directors:

Ms. Wu Jing *(Chairman, Acting Chief Executive Officer, Chairman of the Nomination Committee and member of the Remuneration Committee)*
Mr. Gu Weiwen *(Vice Chairman)*
Mr. Zhang Jian
Mr. Li Dingcheng
Dr. Leung Ka Kit

CORPORATE GOVERNANCE REPORT

Non-executive Director:
Mr. Gu Zengcai

Independent non-executive Directors:
Mr. Liu Jianhua *(member of the Audit Committee and the Nomination Committee)*
Mr. Wang Hengzhong *(Chairman of the Audit Committee and member of the Remuneration Committee)*
Mr. Hui Yat On *(Chairman of the Remuneration Committee and member of the Audit Committee and the Nomination Committee)*

Independent non-executive Directors

During the year ended 31 December 2016, the Board at all times met the requirements of the Listing Rules 3.10(1) and (2), and 3.10A relating to the appointment of at least three independent non-executive directors, representing at least one-third of the Board, with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines as set out in Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors are independent.

The Board members have no financial, business, family or other material/relevant relationships with each other to ensure strong independence exists across the Board. All directors, including non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. The biographical information of the Directors is set out on pages 22 to 28 of this annual report.

Appointment and Re-election of Directors

Code provision A.4.1 of the CG Code stipulates that non-executive directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each of the Directors is appointed for a specific term of three years pursuant to the terms of the engagement. The appointment can be terminated by either party by giving not less than three months' prior notice in writing to the other and is subject to re-election at the annual general meeting of the Company ("AGM") after his appointment pursuant to the Articles. The term of office of every Director is also subject to retirement by rotation at the AGM at least once every three years pursuant to the Articles.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company, overseeing the Group's businesses, strategic decisions and performance. The Board is collectively responsible for promoting the success of the Company by directing and supervising its affairs, and making decisions objectively in the interests of the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the day-to-day management of the Company are delegated to the Company's management team.

CORPORATE GOVERNANCE REPORT

The Directors are ensured to have timely access to the information of the Company as well as the services and advice from the company secretary (the "Company Secretary") and senior management ("Senior Management") of the Company. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

Continuous Professional Development of Directors

Directors keep abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

Every newly appointed Director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Such induction has been supplemented by visits to the Company's key plant sites and meetings with senior management of the Company.

The induction materials, including directors' manual and legal and regulatory update have been provided to the newly appointed Directors, Dr. Leung Ka Kit, Mr. Gu Zengcai and Mr. Hui Yat On for their reference and studying.

Directors should participate in appropriate continuous professional development and training courses to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for Directors will be arranged and reading material on relevant topics will be issued to Directors where appropriate.

Relevant reading materials including directors' manual and legal and regulatory update have been provided to the Directors for their reference and studying. The Directors have participated in the following trainings during the year ended 31 December 2016:

	Types of training
Executive Directors	
Ms. Wu Jing	C
Mr. Gu Weiwen	C
Mr. Zhang Jian	C
Mr. Li Dingcheng	C
Dr. Leung Ka Kit	B, C
Mr. Liu Chuanjia (resigned on 8 June 2016)	C
Non-executive Director	
Mr. Gu Zengcai	B, C
Independent non-executive Director	
Mr. Liu Jianhua	C
Mr. Wang Hengzhong	C
Mr. Hui Yat On	B, C
Mr. Jin Sheng (resigned on 14 October 2016)	C

A Attending in-house briefing

B Attending seminar(s) and training(s)

C Reading materials relating to directors' duties and responsibilities

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE

Code provision A.2.1. of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and the chief executive should be clearly established and set out in writing.

Mr. Liu Chuanjia ("Mr. Liu") was appointed as an executive Director and chairman of the Board from 23 September 2011 to 8 June 2016. Upon Mr. Liu's resignation as an executive Director, chairman of the Board, chairman of the Nomination Committee and member of the Remuneration Committee on 8 June 2016, Ms. Wu Jing has been appointed as chairman of the Board (the "Chairman") to provide leadership to the Board and is responsible for the overall strategic planning and development of the Group with effect from 8 June 2016. Details of the aforesaid changes can be referred to the announcement of the Company published on the websites of the Stock Exchange and the Company on 8 June 2016.

Mr. Liu was redesignated as chief executive officer of the Company (the "Chief Executive Officer") from 31 December 2015 to 9 March 2016. In order to enhance the Company's corporate governance practices and to comply with the code provision A.2.1 of the CG Code, the Company appointed Mr. Gu Weiwen to replace Mr. Liu as the Chief Executive Officer with effect from 9 March 2016. Details of the aforesaid changes can be referred to the announcement of the Company published on the websites of the Stock Exchange and the Company on 9 March 2016.

On 1 December 2016, Mr. Gu has been re-designated and appointed as vice chairman of the Board (the "Vice Chairman") to be principally responsible for the affairs of business development, corporate finance and development of investors relations. Mr. Gu has resigned as the Chief Executive Officer with effect from 1 December 2016 in order to devote more time to his new position upon his appointment.

Upon Mr. Gu's re-designation and resignation as chief executive officer of the Company on 1 December 2016, Ms. Wu Jing, currently the Chairman and an executive Director of the Company, has been appointed as acting chief executive officer of the Company (the "Acting Chief Executive Officer") for a term of 6 months, with effect from 1 December 2016.

Upon the appointment of Ms. Wu as the Acting Chief Executive Officer with effect from 1 December 2016, Ms. Wu assumes both the roles as the Chairman and the Chief Executive Officer, resulting in deviation from code provision A.2.1 of the CG Code. Details of the aforesaid changes can be referred to the announcement of the Company published on the websites of the Stock Exchange and the Company on 1 December 2016.

Despite so, in view of the present rapid development of the Group and further expansion of its downstream business, the Board is of the opinion that, Ms. Wu and Mr. Gu's extensive experience and knowledge in the business of the Group, together with the support of the management shall strengthen the solid and consistent leadership and thereby vesting the roles of both Chairman and Acting Executive Officer in Ms. Wu allows efficient business planning and decision which is in the best interest of the business development of the Group.

The Company will continuously seek to re-comply with code provision A.2.1 by identifying and appointing a suitable and qualified candidate to the position of chief executive officer of the Company in due course.

CORPORATE GOVERNANCE REPORT

NON-EXECUTIVE DIRECTOR

Each of the non-executive Directors (including independent non-executive Directors) has entered into a letter of appointment with the Company for a term of three years, which may be terminated by not less than three months' notice in writing served by either party on the other. They are subject to retirement by rotation at the annual general meeting pursuant to the articles of association of the Company and the CG Code.

BOARD COMMITTEES AND CORPORATE GOVERNANCE FUNCTIONS

The Board has established three committees, namely, the audit committee, remuneration committee and nomination committee, to oversee particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to Shareholders upon request.

Audit Committee

The Company established the audit committee (the "Audit Committee") on 9 December 2013 with written terms of reference in compliance with the CG Code. The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, internal control procedures and risk management system, audit plan and relationship with external auditors, and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Audit Committee comprises three independent non-executive Directors, namely Mr. Liu Jianhua, Mr. Wang Hengzhong and Mr. Hui Yat On. Mr. Wang Hengzhong has been appointed as the chairman of the Audit Committee.

A whistleblowing policy was established to achieve the highest possible standards of openness and accountability, and for employees, customers, suppliers and other stakeholders of the Company to raise concerns of any suspected misconduct or malpractice within the Company. Proper procedures were in place for investigation of any reported cases. The Audit Committee will review the final report and make recommendations to the Board and will review and monitor the effectiveness of this whistleblowing policy from time to time.

During the year, the Audit Committee held two meetings, with all members present in person or through telephonic conferencing, to assess the independence of the Company's auditors, review the internal control and risk management systems, the Group's financial results and report for the year ended 31 December 2015, the Group's interim financial results and report for the six months ended 30 June 2016 before submission to the Board for approval.

The Audit Committee has in conjunction with management of the Company reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited consolidated financial statements of the Group for the year ended 31 December 2016 and the auditors' report thereon.

The Audit Committee also met the external auditors twice without the presence of the executive Directors and the management of the Company.

Remuneration Committee

The Company established the remuneration committee (the "Remuneration Committee") on 9 December 2013 with written terms of reference in compliance with the CG Code. The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration policy and structure for all Directors and senior management and on the establishment of formal and transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration.

The Remuneration Committee comprises one executive Director, Ms. Wu Jing, and two independent non-executive Directors, Mr. Wang Hengzhong and Mr. Hui Yat On. Mr. Hui Yat On has been appointed as the chairman of the Remuneration Committee.

The Remuneration Committee shall report to the Board after each meeting of the Remuneration Committee.

During the year, the Remuneration Committee held two meetings, with all members present in person or through telephonic conferencing, to review and make recommendation to the Board on the remuneration package of executive Directors and other related matters.

Nomination Committee

The Company established the nomination committee (the "Nomination Committee") on 9 December 2013 with written terms of reference in compliance with the CG Code. The principal duties of the Nomination Committee include reviewing the Board structure, size and composition, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of independent non-executive Directors.

The Nomination Committee comprises one executive Director, Ms. Wu Jing, and two independent non-executive Directors, Mr. Liu Jianhua and Mr. Hui Yat On. Ms. Wu Jing has been appointed as the chairman of the Nomination Committee.

In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board diversity policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

The Nomination Committee shall report to the Board after each meeting of the Nomination Committee.

During the year, the Nomination Committee held three meetings, with all members present in in person or through telephonic conferencing, to review the structure, size and composition of the Board and the independence of the independent non-executive Directors and to consider and recommend to the Board on the re-election of Directors at the Annual General Meeting.

The Nomination Committee considered that an appropriate balance of diversity perspectives of the Board is maintained.

CORPORATE GOVERNANCE REPORT

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

The attendance record of each Director at the Board and Board Committee meetings and the general meetings of the Company held during the year ended 31 December 2016 is set out in the table below:

	Attendance/Number of Meetings				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Executive Directors					
Ms. WU Jing (appointed on 9 March 2016)	9/11	N/A	1/2	2/3	1/1
Mr. GU Weiwen (appointed on 9 March 2016)	8/11	N/A	N/A	N/A	1/1
Mr. ZHANG Jian	8/11	N/A	N/A	N/A	1/1
Mr. LI Dingcheng	8/11	N/A	N/A	N/A	1/1
Dr. LEUNG Ka Kit (appointed on 8 June 2016)	5/11	N/A	N/A	N/A	N/A
Mr. LIU Chuanjia (resigned on 8 June 2016)	3/11	N/A	1/2	1/3	1/1
Mr. HAN Yingfeng (resigned on 9 March 2016)	1/11	N/A	N/A	N/A	N/A
Non-executive Director					
Mr. GU Zengcai (appointed on 8 June 2016)	0/11	N/A	N/A	N/A	N/A
Independent non-executive Directors					
Mr. LIU Jianhua	8/11	2/2	N/A	3/3	0/1
Mr. WANG Hengzhong	6/11	2/2	2/2	N/A	0/1
Mr. HUI Yat On (appointed on 8 June 2016)	4/11	1/2	0/2	1/3	N/A
Mr. JIN Sheng (resigned on 8 June 2016)	3/11	1/2	2/2	2/3	0/1

Apart from the four regular Board meetings, the Chairman also held a meeting with the non-executive Directors (including independent non-executive Directors) without the presence of executive Directors during the year ended 31 December 2016.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and the Company's Employees Written Guidelines, and the Company's compliance with the CG Code and disclosure in this corporate governance report.

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2016.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report on pages 75 to 82.

AUDITORS' REMUNERATION

Ernst & Young are appointed as the external auditors of the Company.

During the year ended 31 December 2016, the total fees paid/payable in respect of audit services provided by Ernst & Young were RMB2.7 million. There was no non-audit service fee incurred for the year ended 31 December 2016.

INTERNAL CONTROL

During the year ended 31 December 2016, the Board, through the Audit Committee, conducted a review of the effectiveness of the internal control system of the Company, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

COMPANY SECRETARY

The company secretary of the Company is responsible for advising the Board on corporate governance matters and ensuring that Board policy and procedures and applicable laws, rules and regulations are followed.

Mr. Zhao Zhipeng ("Mr. Zhao") was appointed as one of the joint company secretaries on 14 June 2016 to replace Ms. Cheung Yuet Fan. Following the resignation of Ms. Ai Qinghua as joint company secretary on 16 June 2016, Mr. Zhao acted as the sole company secretary of the Company and the primary contact person at the Company with effect from 16 June 2016.

SHAREHOLDERS' RIGHTS

To safeguard Shareholders interests and rights, a separate resolution is proposed for each substantially separate issue at shareholder meetings, including the election of individual Directors. All resolutions put forward at shareholder meetings of the Company will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each shareholder meeting of the Company.

CORPORATE GOVERNANCE REPORT

Convening an Extraordinary General Meeting by Shareholders and Putting Forward Proposals at General Meetings

- 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 (the "Eligible Shareholder(s)") 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 ("EGM") to be called by the Board for the transaction of any business specified in such requisition, including making proposals or moving a resolution at the EGM.

- Eligible Shareholders who wish to convene an EGM for the purpose of making proposals or moving a resolution at the EGM must deposit a written requisition (the "Requisition") signed by the Eligible Shareholder(s) concerned to the principal place of business of the Company in Hong Kong at 16/F., Nan Fung Tower, 173 Des Voeux Road Central, Hong Kong, for the attention of the company secretary.

- The Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding in the Company, the reason(s) to convene an EGM, the agenda proposed to be included, the details of the business(es) proposed to be transacted in the EGM, signed by the Eligible Shareholder(s) concerned.

- The Company will check the Requisition and the identity and the shareholding of the Eligible Shareholders will be verified with the Company's branch share registrar. If the Requisition is found to be proper and in order, the joint company secretaries will ask the Board to convene an EGM within 2 months and/or include the proposal or the resolution proposed by the Eligible Shareholder(s) at the EGM after the deposit of the Requisition. On the contrary, if the Requisition has been verified as not in order, the Eligible Shareholder(s) concerned will be advised of this outcome and accordingly, the Board will not call for an EGM and/or include the proposal or the resolution proposed by the Eligible Shareholder(s) at the EGM.

- If within 21 days of the deposit of the Requisition the Board has not advised the Eligible Shareholder(s) of any outcome to the contrary and fails to proceed to convene such EGM, the Eligible Shareholder(s) himself/herself/themselves may do so in accordance with the Memorandum and Articles of Association of the Company, and all reasonable expenses incurred by the Eligible Shareholder(s) concerned as a result of the failure of the Board shall be reimbursed to the Eligible Shareholder(s) concerned by the Company.

Putting Forward Enquiries to the Board and Contact Details

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Shareholders may send their enquiries as mentioned above to the following:

Address:	9th Floor PICC Life Insurance Building No.8 Fuyou Road Huangpu District Shanghai, PRC (For the attention of the Board of Directors)
Fax:	+ 86 021 52387355
Email:	ir@artgo.cn

CORPORATE GOVERNANCE REPORT

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2016, the Company has not made any changes to its Articles of Association. An up to date version of the Company's Articles of Association is also available on the websites of the Stock Exchange and the Company.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board recognizes it is responsible for maintaining a sound and effective internal control systems to safeguard the Group's assets and Shareholders' interests against misappropriation and unauthorized disposition and to manage operational risks, and to review and monitor the effectiveness of the Company's internal control and risk management systems on a regular basis so as to ensure that such systems in place are adequate.

The Company has established frameworks applicable to all operating units to ensure the effectiveness of internal controls. The Company also has a process for identifying, evaluating, and managing the significant risks to the achievement of its operational objective. This process is subject to continuous improvement and was in place throughout the year under review and up to the date of this report. The day-to-day operation is entrusted to the individual department, which is accountable for its own conduct and performance, and is required to strictly adhere to the frameworks set by the Board. The Company carries out reviews on the effectiveness of the internal control systems from time to time in order to ensure that they are able to meet and deal with the dynamic and ever changing business environment.

During the year under review, the Board and the Audit Committee have reviewed the effectiveness of the Group's risk management and internal control systems on all major operations of the Group, with assistance from the Group's internal audit department.

All of the recommendations from the Group's internal audit department will be properly followed up to ensure that they are implemented within a reasonable period of time. The Board and the Audit Committee considered that the key areas of the Group's risk management and internal control systems, including the adequacy of resources, qualifications and experience of our accounting, internal audit and financial reporting staff, and their training programs and budget, are reasonably implemented and the Group has fully complied with provisions of the CG Code regarding risk management and internal control systems in general for the year ended 31 December 2016.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

CORPORATE RESPONSIBILITY POLICY

Maintain Highest Ethical Standards

We aim to maintain the highest ethical standards in the conduct of our business. We are committed to maintaining the highest standards of corporate governance

Focus on Health and Safety

- Health and safety issues are always our top priority

Minimise Environmental Impact

- We undertake to minimize the impact of our activities on the environment

Contribute to Communities

- We are willing to make contributions to the communities in which we operate

Respect Our Staff

- We treat each employee with fairness, listen to them with respect, and provide them with a comfortable work environment

Encourage Partners to Set High Standards

- We encourage our contractors to embrace high standards similar to ours

Culture and Education

- We promote the development and appreciation of arts and culture to improve our quality of life and encourage innovation and creative thinking

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

POLICY IMPLEMENTATION

The Group are dedicated to integrating the spirit of community contribution into our core businesses, and provide expertise, human resources, and educational and cultural development for philanthropic projects.

Summary of 2016

The Group took such measures as supporting international treaties, providing employees with safe and environmental-friendly quality workshop, promoting environmental protection measures including classification of wastes, and strengthening employees' occupational safety awareness.

FOREWORD

The Company are pleased to present its Environmental, Social and Governance Report for the year of 2016. In the course of managing a diversified business portfolio involving mining, processing and sale of marble stones as well as commodity trading, and providing products ranging from marble slabs, standard cut to size marble, antique series, water jet, border series and marble related crafts, to bathroom and tailor-made household products, the Group persistently endeavours to operate its business in a sustainable manner, and has built a logistics supply chain park, combining finance with conventional industries. The Report serves as an important tool to communicate to all stakeholders the Company's efforts to promote sustainability developments, and to demonstrate its ongoing commitment to enhance its economic, social and environmental performance.

The Company holds the following five core philosophies: safety first, customer oriented, management centered, care based, and environment protection prioritized

The Company also follows a sustainable development strategy by providing the employees with safe and healthy working environment as well as talent training and development, promoting and implementing supply chain management policies, and administering a set of comprehensive policies, mechanisms and measures for environmental protection, and community involvement and participation, with the objective to carry through sustainable development and operation. Through the establishment of a variety of internal communication channels, the Company's core values will be recognized and implemented by the employees, and the its sustainable operation will be enriched by the employees' enthusiasm and actions of accountability, its strategic planning and enhancing implementation efficiency will be strengthened, thus bringing customers services of higher value, and enhancing the competitiveness of the Company. This Report is prepared in accordance with the *Environmental, Social and Governance Reporting Guide* ("ESG Guide") under Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, summarizing mainly key measures and actions of the Company during the period from 1 January 2016 to 31 December 2016, and covering the policies on the three main elements of economy, environment, and society.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Report covers Artgo Holdings, its subsidiaries and joint venture over which Artgo Holdings currently possesses either a direct or joint control on their operating policies. The companies included in the Report are as follows:

- Artgo Holdings, the head office of the Company in Hong Kong
- Huijin Stone (Xiamen) Co., Ltd.
- ArtGo Stone (Jiangxi) Co., Ltd.
- Jiangxi Jueshi (Yongfeng) Mining Co., Ltd.
- ArtGo Xinxing (Chongqing) Co., Ltd.
- ArtGo Junqi (Shanghai) Co., Ltd.
- ArtGo (Shanghai) Industrial Co., Ltd.
- ArtGo (Jiangsu) Technique Industrial Co., Ltd.
- ArtGo (Xuyi) Industrial Co., Ltd.

Chapter	Corresponding Aspect (per ESG Guide published in 2015)
Protecting the Environment	A. Environmental: A1 Emissions A2 Use of Resources A3 The Environment and Natural Resources
Caring for Staff	B. Social: ➢ Employment and Labour Practices: B1 Employment B2 Health and Safety B3 Development and Training B4 Labour Standards
Responsible Operating Practices	B. Social: ➢ Operating Practices: B5 Supply Chain Management B6 Product Responsibility B7 Anti-corruption
Community Involvement	B. Social: ➢ Community participation: B8 Community Investment

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A ENVIRONMENTAL PROTECTION

Environmental Policy

The Group's Environmental Policy focuses more specifically on emission reduction, carbon footprint reduction, waste reduction at source promotion, green purchasing enhancement, and stakeholder engagement improvement. The Group will endeavor to:

- Ensure compliance with all local environmental and related legislation
- Encourage staff at all levels, business partners and other stakeholders to perform their environmental obligations
- Request all new employees to attend EHS on-board training to ensure that they understand our commitment to environmental protection
- Identify environmental impacts associated with our operations, and set targets to continually improve our environmental performance
- Improve energy efficiencies by adopting best practicable designs and technologies
- Measure and report our emission of GHG such as CO, NOx and SO_2
- Record all emission data, analyze it in detail, and incorporate it in the KPI of employees at all levels
- Actively encourage our stakeholders to reduce their carbon footprint
- Actively promote classification of waste, treatment of harmful and harmless wastes, provision of recycle bins and other environmental protection measures
- Minimize waste generation whenever practical in daily operations through recycling and waste reduction at source
- Embrace green purchasing practices and adopt best practicable technologies to conserve natural resources
- Provide good indoor environmental quality to ensure that all the work environments is healthy
- Provide indoor and outdoor greening and plants
- Provide regular environmental training to employees and continue to raise their awareness on the issues

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

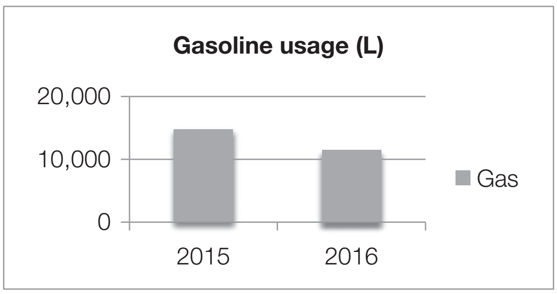
A1 Emissions

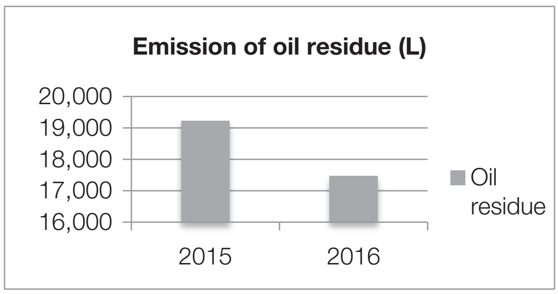
The Group is committed to ensuring that all key environmental impacts are identified and managed in a responsible manner. **We closely monitor the emission during production and strengthen environment management to achieve control over main pollution sources. We also use our best endeavors to reduce the emission of waste. Emission targets are independently set for each project.** Currently, our main pollutants include: exhaust gas, air, waste water, solid waste, and waste water during production. We will continue to improve our environment performance and undertake to regularly report the progress to relevant persons in the business.

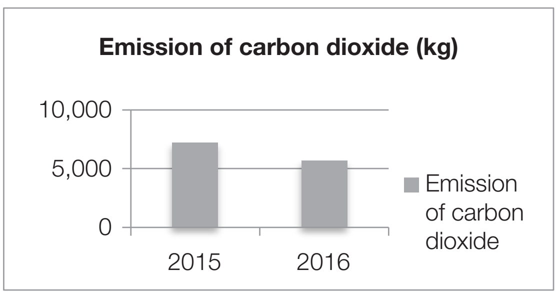
With respect to exhaust gas management:

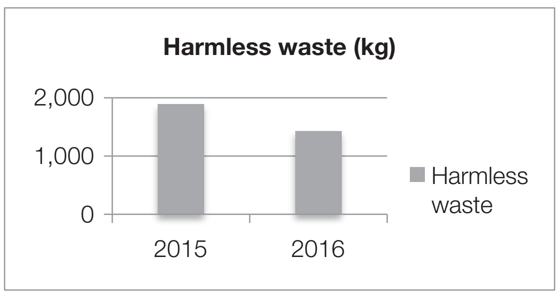
Exhaust gas of the Company is produced mainly by official cars and light transportation vehicles. The Company adopts strict approval system for official cars, and has formulated a set of rules for light transportation vehicles, such as detailed record of mileage and fuel consumption spending, regular calculation and pooled analyses of discharge for constant improvement; meanwhile, the Company indirectly reduces emission of exhaust gas by reducing unnecessary business trips and travels and reasonably arranging vehicles. However, certain emission is difficult to avoid. Therefore, we strive to manage and control relevant risks. In construction sites, greenhouse gas is mainly produced by burning of fuels by generators and automobiles:

There is equipment on sites that generates electricity by using burning fuels. For example: generators and heavy-duty equipment.



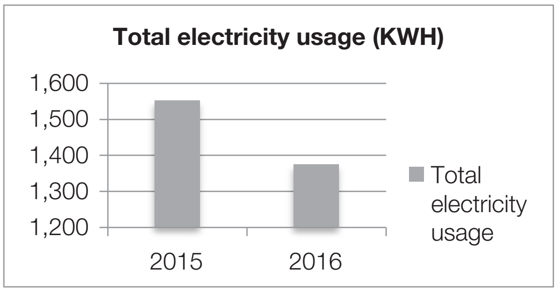


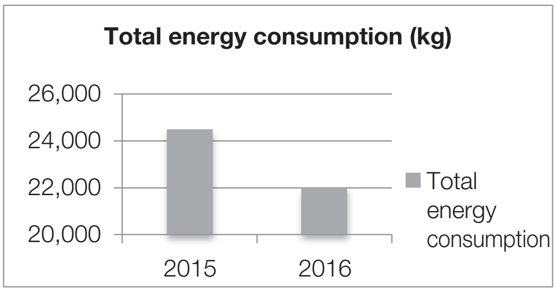




ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group achieves significant results in energy conservation and emission reduction:





Measures for reducing emission and the results:

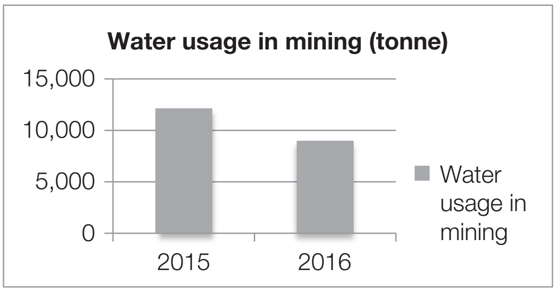
We will use international best-practice standards to evaluate environment impacts in all projects and during mining where commercially practicable, reduce emission based on national and regional conditions, and manage relevant issues in a responsible manner. The Company will monitor and manage environmental challenges arising from changes in expectations of technology and business-related persons and in business models. Moreover, the Company will consider purchasing electric vehicles to replace vehicles that product oil residue and hybrid vehicles where required for the project, so as to reduce emission. In addition, we will increase the number of mechanical checks so that early repair can be performed when any problems are found.

With respect to air pollution control:

The Company has developed new policies to manage smoke emission produced by machines. For example, burning waste in open air is forbidden, all machines must use low sulfur diesel, and separative enclosures and shielding cases must be provided when cutting stone is required in the process, so as to reduce smoke emission.

Wastewater control during production:

The Company has introduced an advanced water cycle system so that the mud water produced during marble stone cutting will be deposited and compressed by the cycle system to filter out mud and stone in the water which will then be compressed into solid form, thereby achieving reuse of water.



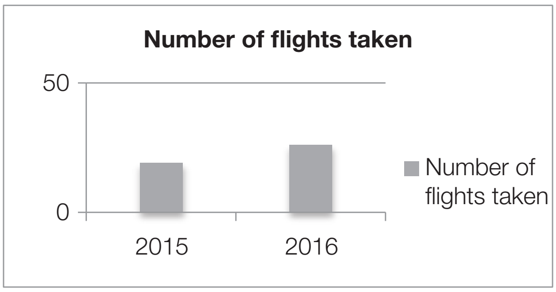
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

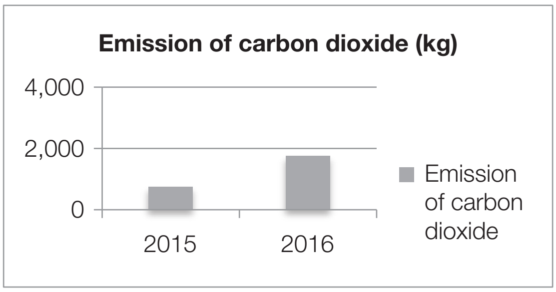
Measures for water pollution control:

We encounter water pollution issues either directly or indirectly in our operations. Therefore, certain preventive measures are necessary. For example: U trenches are added in and out of construction sites to prevent waste water from leaking and to dredge waste water; waste water treatment facilities are also added in the construction and production sites and are regularly maintained. In addition, we regularly arrange for waste water from construction sites such as sanitary wastewater to be collected.

Business travels of employees:

In 2016, the Company's business expanded, and employees traveled more often. The number of flights taken and the emission of carbon dioxide increased compared with 2015:





Chemical Waste Management:

Chemical wastes are liquid, semi-solid and solid wastes (e.g. waste organic solvent, waste lube oil etc. that are produced on our site) which are hazardous in nature or constitute a risk of pollution to the environment. Indiscriminate disposal of chemical waste has very serious health, safety and environmental consequences. Release into coastal waters causes damage to local marine life and accumulation of toxins in sea-food generally creates a serious health hazard to the community. Uncontrolled disposal at municipal waste facilities and into sewerage systems and sewage treatment facilities threatens the health and safety of the operatives. The main objective of the scheme of waste management is to ensure that chemical waste is properly managed by all parties, from the source of production through to the place of final disposal. We will strive to meet requirements of national regulations regarding "harmful waste". Harmful waste is collected by outsourced professional contractors every 1-2 weeks, who will provide data on the amount of waste cleaned.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Treatment of solid waste:

Certain construction waste is inevitable during production, which must be separated from ordinary waste and chemical waste. Timber, paper, metal and plastic should be separated for recycling. Therefore, the policies of the Company expressly require that classification must be performed both in the office and on construction sites. We also provide garbage classification bins for various projects for employees to use, and instruct employees on relevant arrangements and specifications in their on-boarding training.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A2 Use of Resources

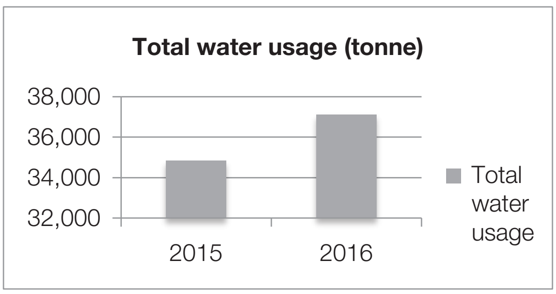
Resource conservation

With the 5Rs principle — to Replace, Reduce, Reuse, Recover and Recycle — forming the basis of our resource conservation programmes, we make every effort to save energy, cut down the use of resources, recycle equipment and materials as well as reduce the generation of waste.

The Company has always been committed to environmental protection by reducing the use of materials and packaging. In addition, we incorporate sustainable environmental protection measures in our business operation principles, and improve the environmental protection awareness of our clients and business partners.

Efficiently Using Resources and Reducing Waste:

Resources such as energy, water and raw materials are essential inputs to our business. Artgo is committed to using resources wisely and efficiently and reducing waste generation within our own operations. Throughout all of our operations, we have been progressively implementing water-efficiency measures, ranging from the installation of water-efficient faucets, other fixtures and fittings in our offices and equipment in our facilities, to the behavioral change of our people. This has enabled us to achieve year-on-year intensity reductions in water usage during 2016, despite water consumption increasing in absolute terms as our operations expanded.



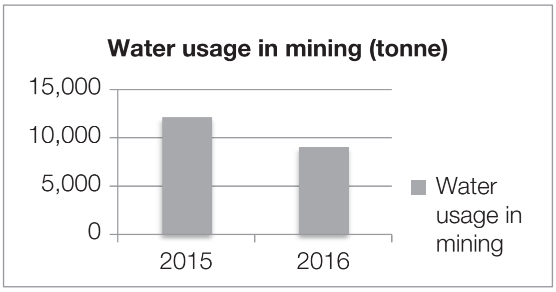
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A3 The Environment and Natural Resources

The values structure of the Company guides us to fulfill our mission and achieve our goal, and caring for the environment is one of our key values. This structure requires that we manage the long and short-term impacts that our businesses have on the environment in a responsible manner. As our businesses cover the entire supply chain, the potential environment issues we need to manage vary depending on the type, specifics of the project, and the nature of the business. Therefore, we focus on assessment of individual projects and business activities to effectively manage the potential impacts on the environment.

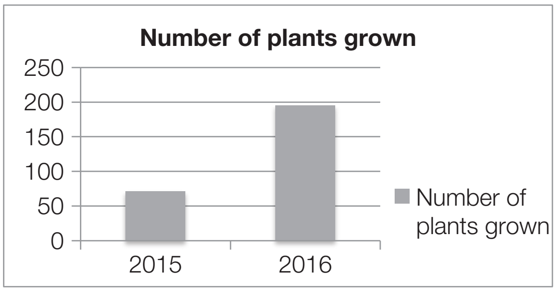
For mining activities, the mines implement strict policies on monthly exploitation quantity and publish Environmental Protection Policies on Mining, and upgrade exploitation methods and optimize exploitation equipments in a timely manner, so as to reduce the impact on the environment and resources.

The Company adopts various effective measures to reduce the waste of natural resources. For example, the total annual water usage of mining was approximately 9,000 tonnes. We take two actions: (1) Purchase energy-saving equipment and facilities that consume less electricity or water provided that work requirements are met. (2) The Company has introduced a water cycle system so that the mud water produced during marble stone cutting will be deposited and compressed by the cycle system to filter out mud and stone in the water which will then be compressed into solid form, thereby achieving reuse of water. After the water-saving actions have been taken, we manage to save approximately 260 tonnes of water each month.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Mining activities affect plants around the mine, reducing the number of certain plants. Requisition of land around the mind affects the porosity of the soil when excavation is performed. The reduction of plants in turn will affect the habitats of birds and bugs in the mountain. The Company has formulated policies on the backfill of lands and mines after exploitation of mineral resources to reduce the impact on geology. To remedy plant destruction, the Company will promptly carry out reforestation after exploitation to restore greening and the origin habitats of animals. In 2016, our projects in Xiamen and Jiangxi planted 38 and 29 trees, respectively. We also increased the total number of plants in our offices by 128.



Compliance with all applicable environmental protection laws is one of the basic principles specified in The Group's Environment Policy Statement. Since 2013, we have not had any environmental protection accidents that led to penalty or any environmental protection case that was subject to litigation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B CARING FOR STAFF

B1 Employment

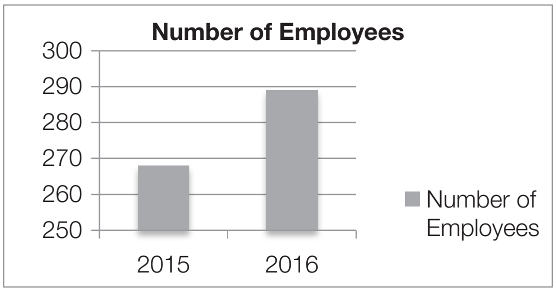
In order to improve employees' sense of belonging towards the Company, we organize various activities for employees each year, including singing contest, table tennis competition, and Christmas party. We also hold events that are educational in nature and help employees enhance their sense of superiority at work, such as Training Program on Etiquette & Image, Sale System Training, Joint Meeting of the Group, Team Building, Legal Consultation Training for Board of Directors, and Annual Meeting for Dealers. On various holidays, such as Mid-Autumn's Day and the Eighth Day of the Twelfth Lunar Month, we offer employees and their families mooncakes, fruit, and souvenirs.

The Eighth Day of the Twelfth Lunar Month falls on a working day.
The Company prepares Laba Porridge for employees.

We meet requirements of national standards with respect to relevant mandatory labor regulations in Mainland China. The Company has always been in compliance with national statutes. Moreover, the Personnel Department of the Company provided clearer and updated guidelines for employees in 2016. Consequently our Human Resource policies have to balance three considerations: our Company-wide Value Framework as a responsible employer, the requirement to comply fully with relevant requirements in each region we operate in, and sensitivity to local culture and business needs.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Composition of employees:
As at 31 December 2016, the Company employed a total of 288 full-time employees, 210 of them were male, and 78 of them female. There were 39 employees at manager level, 169 professional personnel, and 80 technical personnel, 40 of them of whom were female. By region, there were 3 employees from Hong Kong , and 285 from Mainland China.



Employment Policy
Almost 99% of the Company's employees are from Mainland China. The Company strictly complies with the requirements of the Labour Law of the PRC without violating the relevant regulations. Artgo adopts the remuneration policy for all female and male employees based on the principle of equal opportunity and nondiscrimination. Therefore, we adopt the same remuneration levels and structures for male and female employees, and apply the same remuneration calculation method.

The Group adopts policies in compliance with provisions of the Labour Contract Law regarding the periods before and after the pregnancy and childbirth of female employees. Specific regulations are as follows:

- Paid antenatal care leave shall be provided during pregnancy;
- Workload shall be reduced during the later stage of pregnancy;
- Childbirth allowance shall be provided during maternity leave;
- Fifteen days of advance maternity leave shall be provided if the physically condition requires;
- One hour of breastfeeding leave shall be provided each day after the maternity leave and before the baby becomes one year old.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

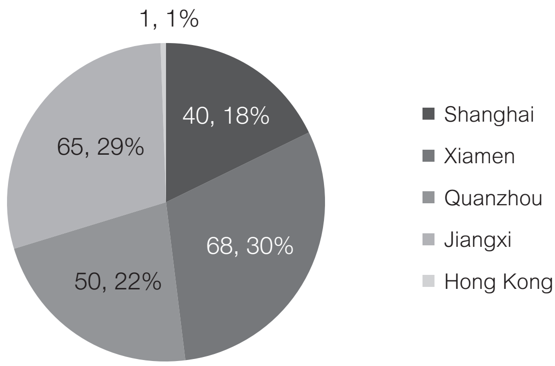
We have established a fair and transparent employment system:

(1) The employment and dismissal processes are in full compliance with the Labour Law of the PRC.

(2) The personnel system prohibits any form of discrimination (based on race, gender, or religion), and provides equal promotion opportunities for all employees with quarterly assessment and annual raise and promotion.

(3) Currently, the Company has a diversified workforce consisting of Mainland China employees, Hong Kong employees, and overseas returnees.

Regional distribution of Artgo Holdings



B2 Occupational health and safety

We purchase safety liability insurance and employment injury insurance for all employees; provide safety precaution education and training; establish Safety Department and grant it the right of strict monitoring and inspection. In addition, we specifically add the position of safety specialist in our personnel structure; develop exploitation and production systems for safety precaution; arrange for annual safety training and education (prior to and during employment); provide regular safety education; and additionally employ safety personnel to monitor the safety of construction during the construction by front-line employees.

- Provide safety construction system and safety facilities in plants
- Provide information, instruction, training and supervision on safety, health and environment
- Provide safe and healthy workshop, and ensure that the construction sites and passages are unblocked and safe
- Ensure safety in handling materials (including use, handling, storage and transportation)
- Provide sound work environment

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

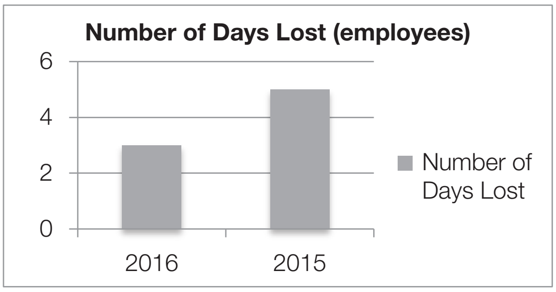
We strive to enhance safety standards and establish safety culture. The improvement of social awareness and efficiency of communication network provide the driving force for us to go beyond the concept of corporate citizen responsibility in the traditional frame. Promoting safety is a focus of our policies, and also an important element for us and our business partners to perform our corporate citizen responsibility. It is our firm belief that quality and safety must go hand in hand. "Safety First" is a fundamental principle and safety assurance is a prerequisite for productivity. We aim to raise industry safety standards, diligently perform contractual obligations, and ensure site safety. We seek to instill a safety culture and continually enhance site safety and health standards via means conducive to proactively mitigating and managing risks by fostering the creation and maintenance of environmentally friendly, clean, and well-organised work sites.

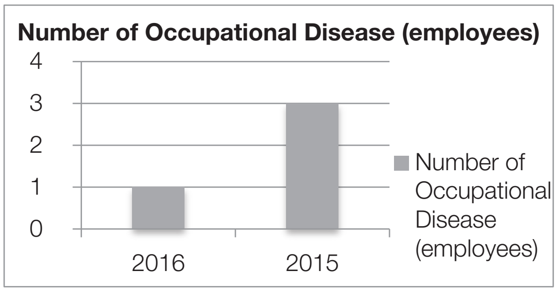
Under the umbrella of the Safety and Health Policy, the Company strives to:

- provide information on safety and health criteria
- collect safety data for continuous assessment

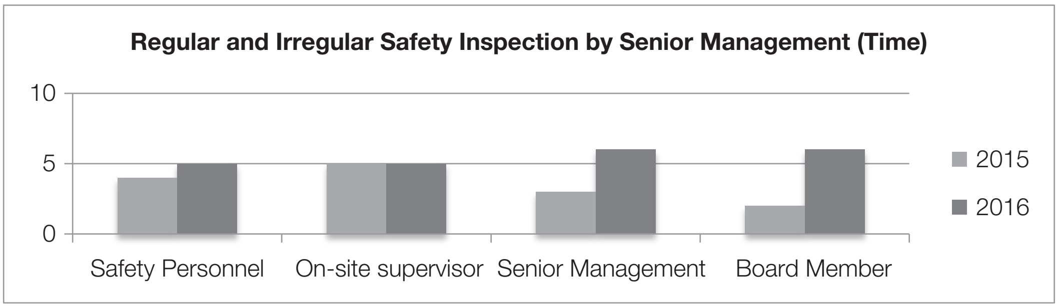
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Operating Safety Training





In 2016, in order to better carry out safety and health works, the Board and Management paid full attention to occupational safety and health, increased inspection, and added five safety personnel and performed irregular safety check and examination at different ranks of position on construction sites. This fully demonstrates the Board and Management's confidence on achieving "zero" safety accident. Further, the Company also considers safety management systems in the future, such as establishing a safety committee, setting up suggestion boxes, and performing regular safety examination.

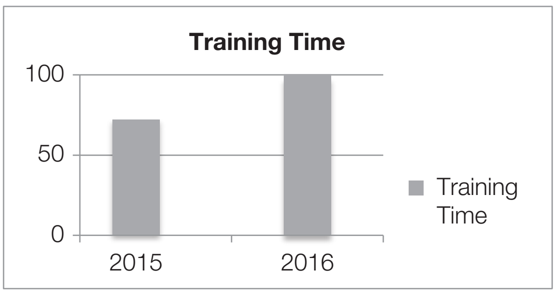


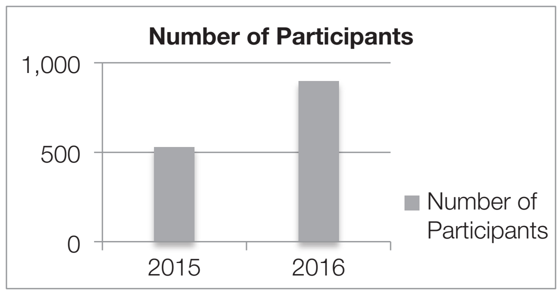
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B3 Development and Training

We allocate ample resources to staff training and development with the aim of sustaining a competent, professional and ethical workforce that will contribute to the success of the Company. Our commitment to staff development is also aligned with the expectation that authorised institutions should engage and deploy personnel with sufficient skills, knowledge, professional qualifications, experience and soundness of judgment for the discharge of their duties. Depending on their role, staff members will receive relevant training in areas such as Legal, financial knowledge, products and operations, compliance, risk management, leadership & management, and sales & relationship management. Reinforcement and refresher training programmes help ensure employees have the latest information and skills to carry out their duties to the highest standards. Recently, the Board of Directors proposed that we should ensure that our employees further understand the management of environmental protection, and put in place the "ISO9001 Introduction to Environmental Management System" training programme to improve staff competency with respect to implementing quality policies and procedures as applied to our business lines. This concept is also incorporated in the New Joiners Induction Programme, which aims at strengthen new employees understanding of such policies and procedures as well as the efforts we make to implement such policies and procedures.

In 2016, the Company provided different courses for employees, such as: Legal Training on Listed Companies, etiquette training, sale skill training, leadership transformation, leadership skill, team building, on-boarding training, safety and health instructions, and environmental protection awareness workshop.





ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Improvement of Overall Capabilities for Employees — Etiquette Training

In the future, we will invest more resources in employees' competitiveness, such as improving professional employees' capabilities on English conversation, English email, and social skills.

B4 Labour Standards:

All work should be voluntarily performed and shall not involve forced labour, debt repayment or contractually binded labour or involuntary prison labour. All employees may resign upon reasonable notice. The Company prohibits child labour in any workplace.

As the Labour Contract Law of the People's Republic of China and other laws have provided specific requirements on labour standards, the Company will strictly comply with such requirements in our implementation of various systems. In addition, we also pay close attention to International Labor Standards regarding labour rights and working conditions, including the following five aspects.

(1) Right to Organize and Collective Bargaining.

(2) Freedom of employment selection and prohibition of forced labour.

(3) Equal employment and equal pay for male and female workers

(4) Prohibition of child labour.

(5) Reasonable working condition (including wages, Labour hour, rest, vacation, and occupational safety and health).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B5 Supply Chain Management

Advancing the establishment of green supply chain has important strategic significance to the enterprise's sustainable development. The Group controls the process of purchasing materials, purchasing outsourcing services and purchasing involved in business operations as per the specified procedures, so as to avoid any possible economic loss or brand impact on the Group or related parties. As for key aspects like operational equipment, the Group performs centralized purchasing, and has formulated the corresponding process to standardize procedures and improve the quality of after-sale services. For example, in terms of handling equipment, the Group has gradually begun to select imported engines of less fuel consumption; diesel vehicles purchased for transportation are required to reach or exceed National IV Standard to control or reduce pollutant discharge; as to forklifts purchased in the future, priority is given to electric vehicles for effective energy saving and carbon reduction.

We carried out the following works in operation management:

1. Financial and tax policy. Proposed to further implement and improve the preferential policy on business tax;

2. Investment and financing policy. Encouraged, supported, and strengthened industry resource consolidation, leading enterprises to perform cross-region re-organization and M&A so as to achieve resource consolidation and expand and strengthen the enterprise;

3. Research and development policy. Endeavoured to achieve overall breakthrough in key technologies, and accelerated the industrialization and application of technologies under proprietary intellectual property rights;

4. Green supply chain policy. Performed ecological design for the entire supply chain of products that ranged from raw material purchase, production, consumption, to waste recycling, to achieve optimization for environment system.

Obtaining strong fund support through financial and tax policy as well as investment and financing polity, we are able to achieve significant improvement in environment and social responsibility. Under the mode where the supply chain is managed by policies, we are able to work more rigorously to minimize the impact on the environment and the society due to negligence in management procedures.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B6 Product Responsibility:

We establish our quality management system based on ISO9001 series quality system standards, and develop management responsibility for production inspection, so as to ensure that our quality goal is reached. We adopt the policy of tying quality to performance, performance to responsibility, and accountability to remuneration. Product management process must start from the very beginning, monitor the procedure, and inspect the result. We continue to improve technology R&D, reform and innovate, and continue to listen to the opinions and suggestions of our users.

So far, there has not been any refund request from any client due to health issues or other reasons, because we produce marble stones which have passed national inspection with respect to health, dispelling the misunderstanding of people that marble stones have radiations and exerting almost no impact on health. Normally, our products are not returned for any reasons. On the rare occasions where our products do get returned, it is because the overall display effect of the products differ from the design of the project designer.

The Company actively promotes the sustainable development of the industry chain, encourages our partners to jointly perform our social responsibilities, and provides quality products and services for the society. The Company sets up a leading term consisting of the Chairman (as the leader), relevant departments, and the manager of the Company, and establishes and improves on a comprehensive supplier quality control system covering quality inspection, monitoring, sample check, and manufacture of key products by stationing personnel in the plant; raise specific requirements on business ethics, human rights, HSEQ, quality standards, and public responsibility for suppliers in supplier admission, supplier evaluation, strategic supplier development, and material procurement; establish uniform supplier database, conduct public tendering, and trade online to achieve "transparent business, controlled process, documentation for the entire process, and permanent traceability", providing fair and transparent participation opportunities for suppliers and ensuring the quality of products and services purchased.

When contracting with clients, we enter into agreements with them for the prevention of disclosing the information of the clients to protect their privacy. During the reporting period, the Group received no complaints arising from disclosure of client information. The Group will further improve the protection measures for clients' privacy and information, and avoid disclosing information of consigning clients (including name, contact information, consigned items, etc.).

B7 Anti-corruption:

In 2016, the Company further improved the system for punishing and preventing corruption. Pursuant to the 2015-2016 Implement Measures for Work Plan on the System for Punishing and Preventing Corruption formulated by the Group, we diligently applied and implemented relevant national laws and regulations on anti-commercial bribery, strengthened the publicity and education for personnel of the organization, and pro-actively resisted all sorts of commercial briberies. Implemented accountability for department leaders, requesting department leaders to implement monitoring. In the course of providing services for clients, it is forbidden to accept gifts, cash, and various valuable securities provided by the service object for any reasons; it is forbidden to accept entertainment that affects fairness and independence, and to accept high-consumption recreation and travel activities provided by the service object; it is forbidden to neglect duties, unduly delay, and shirk responsibilities during analysis and test, and to deliberately make things difficult for or blackmail the service object.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Internal Audit and Management Assessment shall take the implementation of the fairness statement and quality policy into account for audit and assessment. Quality monitor staff shall follow up on the correction and prevention measures relating thereto to ensure that they are duly implemented. Set up report box for the anti-commercial bribery works, and publicize report telephone. In the performance of anti-commercial bribery works, the quality monitor staff shall perform monitoring and checking, discover the early signs of commercial bribery in a timely manner, and research on the counter-measure and actions for prevention of commercial bribery. Conduct research and study, learn about the characteristics and patterns of commercial bribery, and propose specific counter-measures and actions from the perspectives of education, system, and monitoring, so as to resolve the symptom and tendency issues. Improve the anti-money laundry system of the banks. Training and publicity on anti-money laundry can guide the banking industry to foster anti-money laundry awareness and create good anti-money laundry atmosphere. In 2017, the Company will consider inviting the Independent Commission Against Corruption of Hong Kong to provide workshops for employees, thereby developing better guidelines and code of conduct for employees.

B8 Community Involvement

Community Sustainability Principles:

We care for the health, safety and development of the communities in which we operate. We strive to create positive impacts for the society with and for our stakeholders by supporting initiatives that serve the needs and improve the quality of life of the socioeconomically disadvantaged, alleviate poverty, promote diversity and foster social harmony in the communities we serve.

We believe in investing in education and development to equip communities and future leaders with the knowledge and skills necessary to tackle complex challenges in the sustainable production and consumption of energy.

We support training and skills development initiatives that enhance knowledge in energy and environment to help our communities make informed choices based on a holistic understanding of the energy sector. We support initiatives that contribute to the development and appreciation of arts and culture to improve our quality of life and encourage innovation and creative thinking.

Our community initiatives focus on three pillars: Youth Education and Development, Community Wellness and Arts and Culture. As different communities have different needs, our business units have the flexibility to prioritise and address the specific needs and sensitivities of the existing cultures, traditions and values of the local communities. Our local teams have the best knowledge of local priorities and are able to work with local governments and organisations to provide solutions that best match their needs. Our cash donations to charities increased to RMB15,000 in 2016 from HK$5,000 in 2015. Our staff contributed 120 hours of voluntary service.

REPORT OF THE DIRECTORS

The Directors are pleased to present the report and the audited consolidated financial statements of the Group for the year ended 31 December 2016.

REORGANIZATION OF THE GROUP

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law") on 23 September 2011. Pursuant to a reorganization scheme to rationalize the structure of the Group in preparation for the listing of the Shares on the Stock Exchange, the Company became the holding company of subsidiaries now comprising the Group on 7 February 2012.

USE AND CHANGE OF USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

Details of the use and change of use of proceeds from the Company's initial public offering are set out on page 13 of this annual report.

PRINCIPAL ACTIVITIES

The Group is principally engaged in mining, processing, distribution and sales of marble stones. During the year under review, the Group commenced the business of trading of commodities. Save for the aforesaid, there were no significant changes in the nature of the Group's principal activities during the year under review. The principal activity of the Company is investment holding.

BUSINESS REVIEW

A review of the business of the Group during the year and a discussion on the Group's future business development are provided in the Chairman's Statement and the section headed "Management Discussion and Analysis" in this annual report.

Principal Risks and Uncertainties

The Group's financial condition, results of operations, businesses and prospects may be affected by a number of risks and uncertainties. The followings are the key risks and uncertainties identified by the Group. There may be other risks and uncertainties which are not currently known to the Group or which may not be material now but could turn out to be material in the future.

1. *Our marble products may fail to gain market acceptance due to changes in consumers' consumption pattern*
   The increase of our revenue largely depends on market demand and consumer preference. Consumer preferences change over time, and our products may not meet the particular preferences of consumers, or replace their existing preferences. Our failure to anticipate, identify or react to these particular preferences or changes in customer preferences may limit the demand for any new products we introduce, which may result in us not being able to recover our development, production and marketing costs. If this occurs, our business, prospects, financial condition and results of operations may be materially adversely affected.

REPORT OF THE DIRECTORS

2. *We may face difficulties as we expand our sales network to new regions and further penetrate existing markets.*

   We intend to expand our sales network by further enhancing our existing geographical coverage and penetrating regions in the PRC as well as selecting overseas markets such as the North America and the Middle East. As we expand our business to new regions, we may encounter regulatory, personnel, technological and other difficulties that may increase our expenses or delay our ability to start our operations and expand our sales network in compliance with applicable regulatory requirements.

Environmental protection

The Group has endeavoured to comply with laws and regulations regarding environmental protection and adopted effective environmental measures to ensure that the conducting of the Group's business meets the applicable local standards and ethics in respect of environmental protection. The Group puts great emphasis in environmental protection and sustainable development. Through the establishment of an ever-improving management system, enhancement on procedure monitoring, energy conservation and environment protection were strongly promoted, leading to the remarkable achievement of environmental management.

Several measures have been implemented in order to mitigate environmental pollution, such as water saving, water recycling in the marble mine.

Compliance with laws and regulations

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations in particular, those have significant impact on the Group. The Audit Committee is delegated by the Board to monitor the Group's policies and practices on compliance with legal and regulatory requirements and such policies are regularly reviewed. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

As far as the Company is aware, the Group has complied in material respects with the relevant laws and regulations which have a significant impact on the business and operations of the Company during the year ended 31 December 2016.

Key relationships with its stakeholders

1. *Workplace Quality*

   The Group believes that the Directors, senior management and employees are instrumental to the success of the Group and that their industry knowledge and understanding of the market will enable the Group to maintain the competitiveness in the market. As such, the Pre-IPO Share Option Scheme, the Share Option Scheme and other incentive schemes were adopted by the Company for the purpose of providing incentives and rewards to eligible participants who contributed to the success of the Group's operations.

   The Group provides on-the-job training and development opportunities to enhance its employees' career progression. Through different trainings, staff's professional knowledge in corporate operations, occupational and management skills are enhanced. The Group also organized charitable and staff-friendly activities for employees, such as annual dinner, to promote staff relationship.

REPORT OF THE DIRECTORS

The Group strives to provide a safe, effective and congenial working environment. Adequate arrangements, trainings and guidelines are implemented to ensure the working environment is healthy and safe. The Group provided health and safety communications for employees to present the relevant information and raise awareness of occupational health and safety issues.

The Group values the health and well-being of its staff. In order to provide employees with health coverage, its employees are entitled to medical insurance benefits.

2. *Relationships with other stakeholders*

The Group also understands that it is important to maintain good relationship with its distributors and customers to fulfil its long-term goals. To maintain its brand competitiveness and status, the Group aims at delivering constantly high standards of quality in the products to its distributors and customers. During the year under review, there was no material and significant dispute between the Group and its distributors and/or customers.

RESULTS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated financial statements of this annual report.

DIVIDEND

The Board did not declare any interim dividend and did not recommend payment of a final dividend for the year ended 31 December 2016.

RESERVES

Details of movements in the reserves of the Group for the year ended 31 December 2016 are set out in note 30 to the consolidated financial statements and in the consolidated statement of changes in equity of this annual report, respectively.

As at 31 December 2016, the reserves of the Company available for distribution to Shareholders amounted to approximately RMB1,255.2 million (2015: RMB829.1 million).

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's largest and five largest customers were approximately 43.9% and 81.8% of the Group's total sales respectively. The aggregate purchases attributable to the Group's largest and five largest suppliers were approximately 74.3% and 93.9% of the Group's total purchases respectively during the year.

During the year, none of the Directors, their close associates or any Shareholders (who to the knowledge of the Directors owned more than 5% of the issued Shares) had any interest in any of the five largest customers or suppliers of the Group.

REPORT OF THE DIRECTORS

BANK AND OTHER BORROWINGS

Particulars of bank loans of the Group as at 31 December 2016 are set out in note 24 to the consolidated financial statements of this annual report.

DONATIONS

The Group made charitable and other donations amounted to approximately RMB18,000 during the year (2015: Nil).

PROPERTY, PLANT AND EQUIPMENT

Details of property, plant and equipment of the Group are set out in note 13 to the consolidated financial statements of this annual report.

INVESTMENT PROPERTIES

Details of investment properties of the Group are set out in note 14 to the consolidated financial statements of this annual report.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital are set out in note 28 to the consolidated financial statements of this annual report. There were no movements of share options during the year ended 31 December 2016. Details of the share options of the Company are set out in note 29 to the consolidated financial statements of this annual report.

FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the years ended 31 December 2012, 2013, 2014, 2015 and 2016, as extracted from the audited financial statements, is set out on pages 151 to 152 of this annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights over the Shares under the Articles or the laws of the Cayman Islands where the Company is incorporated, which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors
Ms. WU Jing (伍晶) (appointed on 9 March 2016)
Mr. GU Weiwen (顧偉文) (appointed on 9 March 2016)
Mr. ZHANG Jian (張健) (appointed on 9 March 2016)
Mr. LI Dingcheng (李定成)
Dr. LEUNG Ka Kit (梁迦傑) (appointed on 8 June 2016)
Mr. LIU Chuanjia (劉傳家) (resigned on 8 June 2016)
Mr. HAN Yingfeng (韓英峰) (resigned on 9 March 2016)

Non-executive Director
Mr. Gu Zengcai (顧增才) (appointed on 8 June 2016)

Independent Non-executive Directors
Mr. LIU Jianhua (劉建華)
Mr. WANG Hengzhong (王恒忠)
Mr. HUI Yat On (許一安) (appointed on 8 June 2016)
Mr. JIN Sheng (金勝) (resigned on 14 October 2016)

The Company has received, from each of the independent non-executive Directors, a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive Directors are independent.

Pursuant to article 84 of the Articles, Mr. Wang Hengzhong and Mr. Li Dingcheng will retire by rotation as Director at the forthcoming AGM. All the above retiring Directors, being eligible, offer themselves for re-election at the forthcoming AGM.

Pursuant to article 83(3) of the Articles, Mr. Leung Ka Kit, Mr. Gu Zengcai and Mr. Hui Yat On, who were appointed as Directors during the period after the 2016 annual general meeting held by the Company on 25 May 2016, will hold office until the forthcoming AGM and be subject to re-election at such meeting.

REPORT OF THE DIRECTORS

CHANGES IN DIRECTORS' BIOGRAPHICAL DETAILS

Changes in Directors' biographical details since the date of the 2016 interim report of the Company, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, are set out below:

Name of Director	Details of Changes
Ms. Wu Jing	• appointed as the Acting Chief Executive Officer on 1 December 2016
Mr. Gu Weiwen	• re-designated as the Vice Chairman of the Board on 1 December 2016
Mr. Hui Yat On	• resigned as an independent non-executive director of Peace Map Holding Limited (a company listed on the Stock Exchange with stock code 0402) with effect from 21 July 2016, appointed as the chairman of the remuneration committee a member of the audit committee and a member of the nomination committee of the Company on 14 October 2016

DIRECTORS' SERVICE CONTRACTS

None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

DIRECTORS' REMUNERATION

The Remuneration Committee considers and recommends to the Board on the remuneration and other benefits paid by the Company to the Directors by reference to the Company's operating results, individual performance and comparable market rates. The remuneration of all Directors is subject to regular monitoring by the Remuneration Committee to ensure that the levels of their remuneration and compensation are appropriate.

Details of Directors' remuneration are set out in note 9 to the consolidated financial statements of this annual report.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

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

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Save as the Pre-IPO Share Option Scheme, at no time during the year was the Company, its holding company, or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEMES

Pre-IPO Share Option Scheme

The Company adopted a pre-IPO share option scheme (the “Pre-IPO Share Option Scheme”) on 9 December 2013. The Pre-IPO Share Option Scheme has become unconditional on the Listing Date and, unless otherwise cancelled or amended, will remain in force for 42 months from that date. The principal terms of the Pre-IPO Share Option Scheme are substantially the same as the terms of the Share Option Scheme (as defined below) except that:

(a) *Purpose*

The Pre-IPO Share Option Scheme is a share incentive scheme established to reward the full-time employees of the Group of the level of manager or above who, in the sole opinion of the Board, will contribute or have contributed to the Group (the “Pre-IPO SOS Eligible Participants”).

(b) *Who may join*

The Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as the Board may determine to the Pre-IPO SOS Eligible Participants at an exercise price set out in paragraph (d) below.

(c) *Maximum number of Shares*

The maximum number of Shares in respect of which options may be granted under the Pre-IPO Share Option Scheme is 9,000,007 Shares representing 0.56% of the issued share capital of our Company as at the date of this annual report.

(d) *Price of Shares*

The exercise price per Share in respect of any particular option granted under the Pre-IPO Share Option Scheme shall be HK$2.39 per Share.

(e) *Time of exercise of option and duration of the Pre-IPO Share Option Scheme*

The options granted are exercisable within the period as notified by the Board to each grantee and shall vest in the following manner:

(i) 10% of the Shares that are subject to the option so granted to him/her at any time during the period commencing from the six months of the Listing Date;

(ii) up to 20% of the Shares that are subject to the option so granted to him/her less the number of Shares in respect of which the option has been granted at any time during the period commencing from the 18 months of the Listing Date;

(iii) up to 60% of the Shares that are subject to the option so granted to him/her less the number of Shares in respect of which the option has been granted at any time during the period commencing from the 30 months of the Listing Date; and

(iv) up to 100% of the Shares that are subject to the option so granted to him/her less the number of Shares in respect of which the option has been granted at any time during the period commencing from the 42 months of the Listing Date.

REPORT OF THE DIRECTORS

(f) *Payment of acceptance of option*

Upon acceptance of the option, the grantee shall pay HK$1.00 (or an equivalent amount in RMB) to our Company by way of consideration for the grant.

(g) *Expiry of option*

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

(i) the date of expiry of the option as may be determined by the Board;

(ii) the expiry of 14 days after the date on which a general offer made to all the holders of Shares becomes or is declared unconditional or the expiry of the period of not later than two business days prior to the proposed general meeting of the Company in the event a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company;

(iii) the date on which a scheme of arrangement of the Company as per the terms of the Pre-IPO Share Option Scheme becomes effective;

(iv) the date of commencement of the winding-up of our Company in accordance with the Companies Law;

(v) the date on which the grantee ceases to be an Eligible Participant for any reason; or

(vi) the date on which the Board shall exercise our Company's right to cancel the option in accordance with the approval with the grantees of the relevant options.

(h) *Status of the options granted*

Save for the options which have been granted under the Pre-IPO Share Option Scheme on 30 December 2013, no further options have been, and will be, offered or granted under the Pre-IPO Share Option Scheme.

REPORT OF THE DIRECTORS

The following table sets out particulars of the options granted under the Pre-IPO Share Option Scheme and their movements during the year:

Category/ name of participants	Number of options Outstanding as at 1 January 2016	Number of share options Granted during the year	Exercised during the year	Expired/ forfeited during the year	Number of options Outstanding as at 31 December 2016	Exercise price HK$	Date of grant
Director							
Han Yingfeng	1,800,001 (Note 1)	–	–	1,800,001	0	2.39	30 December 2013
Other employees In aggregate	9,000,007	–	–	999,998	2,133,336	2.39	30 December 2013
Total	10,800,008	–	–	8,666,672 (Note 2)	2,133,336		

Notes:

(1) Mr. Han Yingfeng resigned as a Director on 9 March 2016.

(2) A total of 8,666,672 share options expired or forfeited during the year under review.

Share Option Scheme

The Company adopted a share option scheme (the "Share Option Scheme") on 9 December 2013. The following is a summary of the principal terms of the Share Option Scheme:

(a) *Purpose of the Share Option Scheme*

The Share Option Scheme is a share incentive scheme and is established to recognize and acknowledge the contributions the Eligible Participants (as referred to in paragraph (b) below) had or may have made to our Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in our Company with the view to achieving the following objectives:

(i) motivate the Eligible Participants to optimize their performance efficiency for the benefit of our Group; and

(ii) attract and retain or otherwise maintain on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of our Group.

(b) *Participants of the Share Option Scheme*

The Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph (e) below to:

(i) any full-time or part-time employees, executives or officers of our Company or any of its subsidiaries;

REPORT OF THE DIRECTORS

(ii) any Directors (including non-executive Directors and independent non-executive Directors) of our Company or any of its subsidiaries; and

(iii) any advisers, consultants, suppliers, customers and agents to our Company or any of its subsidiaries.

(c) *Total number of Shares available for issue under the Share Option Scheme*
The maximum number of Shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company as from its adoption date (i.e. 9 December 2013) (excluding, for this purpose, Shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company) must not in aggregate exceed 10% of all the Shares in issue as at the Listing Date.

As at the date of this annual report, there are 133,333,400 options available for grant under the Share Option Scheme, representing 8.4% of the issued share capital of the Company.

(d) *The maximum entitlement of each Eligible Participant under the Share Option Scheme*
The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of our Company (including both exercised and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as of the date of grant.

(e) *Price of Shares*
The exercise price of share options under the Share Option Scheme is determinable by the Board, but may not be less than the highest of (i) the Stock Exchange closing price of the Shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a Share.

(f) *Timing for exercising option*
An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the Option is deemed to be granted and accepted and prior to the expiry of ten years from that date.

(g) *Payment of acceptance of option*
Upon acceptance of the option, the grantee shall pay HK$1.00 (or an equivalent amount in RMB) to our Company by way of consideration for the grant.

(h) *The basis of determining the exercise price of option*
The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of:

(i) the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;

(ii) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and

(iii) the nominal value of a Share.

REPORT OF THE DIRECTORS

(i) *Duration of the Share Option Scheme*

The Share Option Scheme will remain in force for a period of 10 years commencing on its adoption date (i.e. 9 December 2013).

(j) *Status of the options granted*

Since the Listing Date, no further options have been offered or granted under the Share Option Scheme.

DISCLOSURE OF INTERESTS

A. Directors' interests and short positions in the securities of the Company and its associated corporations

As at 31 December 2016, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interest and/or short positions which they were taken or deemed to have under such provisions of the SFO), or which as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long position in shares and underlying shares

Name of Director	Capacity	Number of Shares interested	Approximate percentage of issued Shares
Ms. Wu Jing	Spouse Interest (Note 1)	476,235,840	24.91%
	Beneficial Owner (Note 2)	97,000	0.01%
Dr. Leung Ka Kit	Interest in controlled corporation (Note 1)	476,235,840	24.91%
	Spouse Interest (Note 2)	97,000	0.01%

Notes:

1. Dr. Leung Ka Kit ("**Dr. Leung**") is interested in 476,235,840 Shares through his wholly-owned subsidiary Maswin International (Hong Kong) Co., Limited. As Ms. Wu Jing is the wife of Dr. Leung, Ms. Wu Jing is deemed to be interested in the said 476,235,840 shares.

2. Ms. Wu Jing beneficially owns 97,000 Shares and Dr. Leung is deemed to be interested in the said 97,000 Shares due to his spouse interest.

REPORT OF THE DIRECTORS

B. Substantial Shareholders' interests or short positions in the securities of the Company

As at 31 December 2016, as far as is known to the Directors or chief executive of the Company, the interests or short positions of the persons (other than the interests disclosed above in respect of the Directors and the chief executive) in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register as required to be kept by the Company under Section 336 of the SFO were as follows:

As at 31 December 2016, the interests or short positions of the substantial Shareholders (other than the interests disclosed above in respect of certain Directors who are also substantial Shareholders) in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register of substantial Shareholders as required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Capacity	Number of Shares interested (Note 1)	Approximate percentage of the issued share capital of the Company
Wu Jing	Beneficial Owner	476,332,840(L) (Note 2)	24.92%
Leung Ka Kit	Beneficial Owner	476,332,840(L) (Note 2)	24.92%
Maswin International (Hong Kong) Co. Limited	Interest in controlled corporation	476,235,840(L) (Note 2)	24.92%
China Marble Investment Holdings Limited	Beneficial owner	321,872,452 (L) (Note 3)	16.84%
Carlyle Asia Growth Partners IV, L.P.	Interest in controlled corporation	321,872,452 (L) (Note 3)	16.84%
CAGP IV General Partner L.P.	Interest in controlled corporation	321,872,452 (L) (Note 3)	16.84%
CAGP IV, Ltd.	Interest in controlled corporation	321,872,452(L) (Note 3)	16.84%
TC Group Cayman Investment Holdings Sub, L.P.	Interest in controlled corporation	321,872,452 (L) (Note 3)	16.84%

REPORT OF THE DIRECTORS

Name	Capacity	Number of Shares interested (Note 1)	Approximate percentage of the issued share capital of the Company
TC Group Cayman Investment Holdings, L.P.	Interest in controlled corporation	321,872,452 (L) (Note 3)	16.84%
Carlyle Holdings II L.P.	Interest in controlled corporation	321,872,452 (L) (Note 3)	16.84%
Carlyle Holdings II GP L.L.C.	Interest in controlled corporation	321,872,452 (L) (Note 3)	16.84%
The Carlyle Group L.P.	Interest in controlled corporation	321,872,452 (L) (Note 3)	16.84%
Wang Jiangze	Beneficial Owner	260,000,000 (L) (Note 2)	13.60%
Xu Kefu	Beneficial Owner	189,764,160 (L)	9.93%
Sun Haocheng	Beneficial Owner	140,678,000 (L)	7.36%
China First Capital Group Limited	Interest in controlled corporation	126,096,000 (L)	6.60%

Notes:

1. The letter "(L)" denotes long position in the Shares.

2. Dr. Leung Ka Kit is interested in the entire issued shares of Maswin International (Hong Kong) Co. Limited ("Maswin International"), and Ms. Wu Jing is the spouse of Dr. Leung Ka Kit. Pursuant to Part XV of the SFO, Dr. Leung Ka Kit and Ms. Wu Jing are taken to be interested in the 476,235,840 Shares of the Company held by Maswin International (Hong Kong) Co. Limited.

   In addition, Maswin International holds 476,235,840 Shares of the Company, of which 260,000,000 Shares are held upon trust by Maswin International on behalf of Mr. Wang Jiangze. Accordingly, Mr. Wang Jiangze is the beneficial owner of such 260,000,000 Shares.

3. As known to the Directors after making reasonable enquiry, as at 31 December 2016, China Marble Investment Holdings Limited was 91.83% owned by Carlyle Asia Growth Partners IV, L.P.. The Carlyle Group L.P. indirectly wholly owned Carlyle Asia Growth Partners IV, L.P. through Carlyle Holdings II GP L.L.C., Carlyle Holdings II L.P., TC Group Cayman Investment Holdings, L.P., TC Group Cayman Investment Holdings Sub, L.P., CAGP IV, Ltd. and CAGP IV General Partner L.P.. Therefore The Carlyle Group L.P., Carlyle Holdings II GP L.L.C., Carlyle Holdings II L.P., TC Group Cayman Investment Holdings, L.P., TC Group Cayman Investment Holdings Sub, L.P., CAGP IV, Ltd., CAGP IV General Partner L.P. and Carlyle Asia Growth Partners IV, L.P. (all being immediate or indirect holding companies of China Marble Investment Holdings Limited) are all deemed to be interested in the Shares held by China Marble Investment Holdings Limited for the purpose of Part XV of the SFO.

REPORT OF THE DIRECTORS

EQUITY-LINKED AGREEMENTS

Other than the Pre-IPO Share Option Scheme and Share Option Scheme as disclosed in this report, no equity-linked agreements that will or may result in the Company issuing Shares, or that require the Company to enter into any agreements that will or may result in the Company issuing Shares, were entered into by the Company during the year or subsisted at the end of the year.

PERMITTED INDEMNITY PROVISION

Under the Articles, every Director or other officers of the Company acting in relation to any of the affairs of the Company shall be entitled to be indemnified against all actions, costs, charges, losses, damages and expenses which he/she may incur or sustain in or about the execution of his/her duties in his/her office. The Company has arranged appropriate insurance cover in respect of legal action against its Directors and officers.

MANAGEMENT CONTRACTS

For the year ended 31 December 2016, there is no contract entered into by the Company relating to its management and administration or subsisting during the year which is substantial to the entire or any substantial part of the business of the Group.

CONNECTED TRANSACTIONS

So far as the Directors and chief executive are aware, no non-exempt connected transactions or continuing connected transactions were entered into by the Group during the year ended 31 December 2016.

A summary of the related party transactions entered into by the Group during the year ended 31 December 2016 is contained in note 35 to the consolidated financial statements of this annual report. The related party transactions disclosed in note 35 to the consolidated financial statements are connected transactions or continuing connected transactions that were fully exempt from reporting, announcement, independent shareholders' approval and/or annual review pursuant to Rules 14A.76(1), 14A.90 and 14A.95 of the Listing Rules. The Company has complied with the applicable disclosure requirements under Chapter 14A of the Listing Rules in respect of such continuing connected transactions.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, during the year, the Company has maintained a sufficient public float of more than 25% of the Company's issued share capital as required under the Listing Rules.

REPORT OF THE DIRECTORS

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

During the year ended 31 December 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Each of the Directors has confirmed that he is neither engaged, nor interested, in any business which, directly or indirectly, competes or is likely to compete with the Group's business (apart from the Group's business).

CLOSURE OF REGISTER OF MEMBERS FOR ATTENDING AND VOTING AT THE ANNUAL GENERAL MEETING

The register of members of the Company will be closed from Thursday, 18 May 2017 to Monday, 23 May 2017 (both dates inclusive, 4 business days in total) during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the 2017 annual general meeting, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 17 May 2017.

AUDITORS

Ernst & Young has acted as auditors of the Company and has audited the Company's financial statements for the year ended 31 December 2016. The Company has not changed its external auditors since its listing on 30 December 2013 and up to the date of this annual report. A resolution will be proposed at the forthcoming AGM for the re-appointment of Ernst & Young as the auditors of the Company.

On behalf of the Board

Wu Jing
Chairman and Executive Director

Hong Kong, 31 March 2017

INDEPENDENT AUDITOR'S REPORT

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

安永會計師事務所
香港中環
添美道1號
中信大廈22樓

Tel 電話: +852 2846 9888
Fax 傳真:+852 2868 4432
ey.com

To the shareholders of ArtGo Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of ArtGo Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 83 to 150, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") 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 Hong Kong Institute of Certified Public Accountants ("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 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Recognition of revenue	
The Company derives a significant portion of its revenue from customers engaged in commercial property development and commodity trading. During 2016, the real estate sector in Mainland China, especially in smaller cities where many of the Group's customers operate, experienced challenging trading conditions. This, in turn, has a negative influence on overall sales of marble. Under such circumstances, revenue could be overstated resulting from the pressure local management may feel to achieve performance targets. Revenue recognition has been identified as a risk, particularly in respect of the existence and occurrence of transactions and the accuracy of revenue recognition for sales with deliveries occurring on or around year-end. Due to the significant volume of transactions, minor errors could, in aggregate, have a material impact on the financial statements. The Group's disclosures about recognition of revenue are included in notes 2.4 and 5 to the financial statements.	Our audit procedures, among others, included: • We discussed and reviewed the accounting treatment of sales made by the Group during the year and ensured it was consistent with previous years; • We tested the key internal controls over the timing of revenue recognition for a statistical sample of transactions; • We obtained significant sale contracts covering 96% of total revenue recorded and checked the transaction terms in respect of transfer of risks and rewards of ownership; • We performed cut-off audit procedures on sales transactions taking place close before and after the year-end date, to assess whether those transactions were recognised in the correct year; • We tested key reconciliations and manual journal entries posted to ensure that revenue journals were approved and corroborated with supporting evidence; • We sent direct confirmation for year end account receivables balances and sales transactions during the year to the Company's top 5 customers, to identify whether there are any material differences. We obtained replies from 5 customers and investigated differences if any. For the other customers who did not reply, we performed alternative testing procedures such as reviewing the delivery order and sales invoice; • We performed subsequent event procedures to check if any significant sales returns occurred; and • We reviewed the disclosures made by the Company to ensure they were reasonable and adequate.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of non-current assets	
In accordance with International Financial Reporting Standards, the Group evaluates annually its non-current assets to determine whether there are any indications of impairment. If any exist, a formal estimate of the recoverable amount is performed based on the value in use or fair value less costs of disposal methodology. The Group has material investments in the non-current assets-mining rights. Given the nature of these assets, the assessment of impairment involves significant estimation uncertainty, subjective assumptions and application of significant judgement. The unfavourable marble market in 2016 increased the required judgement in making these impairment assessment. Based on existing market conditions, impairment indicators were identified for the Group's main mining cash generating units ("CGU"s), the mining licence related to Yongfeng CGU, the mining licence for Ji'an mine, Guiguan mine and Sanxin mine. As at 31 December 2016, the net carrying amounts of the above-mentioned non-current assets aggregated RMB1,060,028,149. The Group's disclosures about impairment assessment for these CGUs and assets are included in Note 3, 13 and 14 to the financial statements.	Our audit procedures, among others, included: • We discussed and reviewed the accounting treatment of sales made by the Group during the year and ensured it was consistent with previous years; • We tested the key internal controls over the timing of revenue recognition for a statistical sample of transactions; • We obtained significant sale contracts covering 96% of total revenue recorded and checked the transaction terms in respect of transfer of risks and rewards of ownership; • We performed cut-off audit procedures on sales transactions taking place close before and after the year-end date, to assess whether those transactions were recognised in the correct year; • We tested key reconciliations and manual journal entries posted to ensure that revenue journals were approved and corroborated with supporting evidence; • We sent direct confirmation for year end account receivables balances and sales transactions during the year to the Company's top 5 customers, to identify whether there are any material differences. We obtained replies from 5 customers and investigated differences if any. For the other customers who did not reply, we performed alternative testing procedures such as reviewing the delivery order and sales invoice; • We performed subsequent event procedures to check if any significant sales returns occurred; and • We reviewed the disclosures made by the Company to en sure they were reasonable and adequate.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Recoverability of trade receivables	
The Group is exposed to credit risks on trade receivables. The majority of the Group's customers operate in the real estate sector, or are vendors to that sector. During 2016, the real estate sector in Mainland China, especially in smaller cities where many of the Group's customers operate, experienced challenging trading conditions impacting their ability to settle their liabilities to the Group. The identification of impairment and the determination of recoverable amounts are an inherently uncertain process involving significant management judgement, including their assessment of the customers' financial condition and expected future cash flows from the customers. The Group's disclosures about the recoverability of trade receivables are included in notes 2.4, 3 and 19 to the financial statements.	The focus of our work involved auditing the Group's credit analysis and associated impairment assessments of trade receivables that were either in default, significantly overdue or on credit watch at 31 December 2016. Our audit procedures, among others, included: • We assessed and tested the design and operating effectiveness of the controls over the credit approval process and impairment assessments, including the quality of underlying data and systems; • We checked the correctness of the aging analysis by customer; • We selected receivables with large balances including those where no provision for impairment was recognised and those where a provision for impairment of receivables was recognised and understood the rationale behind management's judgements. In order to evaluate the appropriateness of these judgements, we verified whether balances were overdue, the debtors' historical payment patterns and whether any post year-end payments had been received up to the date of completing our audit procedures. We also obtained corroborative evidence including correspondence supporting any disputes between the parties involved, attempts by management to recover the amounts outstanding and reports on the credit status of significant counterparties where available; and • We assessed the adequacy of the disclosures regarding the impairment provisions for receivables and the Group's exposure to credit risk.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Provision for rehabilitation	
The Group's mining activities are subject to various PRC environmental laws and regulations, promulgated by both national and local governments. The Company recognises its obligations for rehabilitation and restoration incurred as a consequence of having undertaken the exploration and extraction of mineral resources. Significant estimates and assumptions are required to be made in determining the provision for rehabilitation as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases and changes in the discount rate. The Group's disclosures about provision for rehabilitation are included in notes 2.4, 3 and 26 to the financial statements.	Our audit procedures, among others, included: • We gained an understanding of management's process for identifying the Company's environmental obligations. We referred to the opinion of legal adviser and an independent database of all enacted environmental laws and regulations and ensured that management had considered all provisions contained therein; • We evaluated the appropriateness of the intended method of rehabilitation of the Group's mines to ensure it would comply with the legal requirements; • We examined the completeness of the rehabilitation area included in the cost estimates by comparing the disturbed area to the mine site area under the mining rights; • We considered management's costing estimates to rehabilitate disturbed areas, and we ensured that the cost estimates are reasonable in light of current costs for similar work. We reviewed the appropriateness of data used by management in preparing the cost estimates; • We investigated changes in cost estimates between years and obtained explanations based on inflationary factors, revised rehabilitation methods and changes in applicable technology; • We performed detailed recalculation of the movement in the provision for rehabilitation during the year. We checked that the cost inflation and discounting rates used by management were consistent with externally sources; and • We assessed the adequacy of the Group's disclosures relating to rehabilitation obligations.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do 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 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, 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.

RESPONSIBILITIES OF THE DIRECTORS 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 IFRSs issued by the IASB 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities 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. Our report is made 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.

INDEPENDENT AUDITOR'S REPORT

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

INDEPENDENT AUDITOR'S REPORT

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them 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 Leung Wai Lap, Philip.

Ernst & Young
Certified Public Accountants
Hong Kong
31 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	5	**1,059,457**	332,217
Cost of sales		**(961,235)**	(154,448)
Gross profit		**98,222**	177,769
Other income and gains	6	**15,695**	23,632
Selling and distribution expenses		**(24,683)**	(34,861)
Administrative expenses		**(35,407)**	(42,715)
Other expenses		**(19,861)**	(6,586)
Finance costs	7	**(24,317)**	(16,606)
PROFIT BEFORE TAX	8	**9,649**	100,633
Income tax expense	10	**(10,195)**	(25,226)
PROFIT/(LOSS) AND TOTAL COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY FOR THE YEAR		**(546)**	75,407
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY:			
— Basic and diluted	12	**RMB(0.00)**	RMB0.06

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	60,866	65,346
Investment properties	14	98,401	–
Prepaid land lease payments	15	13,271	12,502
Intangible assets	16	1,022,719	191,740
Prepayments, deposits and other receivables	20	14,168	15,196
Payments in advance	17	480,561	1,946
Deferred tax assets	27	9,537	7,721
Restricted deposits	21	2,455	2,312
Total non-current assets		1,701,978	296,763
CURRENT ASSETS			
Inventories	18	179,361	72,622
Trade receivables	19	23,159	63,321
Prepayments, deposits and other receivables	20	218,813	163,586
Pledged deposits	21	94,226	28,174
Cash and bank balances	21	60,896	861,324
Total current assets		576,455	1,189,027
CURRENT LIABILITIES			
Trade and bills payables	22	153,150	177,616
Other payables and accruals	23	80,363	80,769
Tax payables		24,636	24,376
Interest-bearing bank and other borrowings	24	197,682	127,600
Total current liabilities		455,831	410,361
NET CURRENT ASSETS		120,624	778,666
TOTAL ASSETS LESS CURRENT LIABILITIES		1,822,602	1,075,429

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	24	**5,000**	–
Deferred tax liabilities	27	**2,229**	2,322
Other payables	23	**–**	9,300
Deferred income	25	**5,480**	5,690
Provision for rehabilitation	26	**13,323**	12,493
Total non-current liabilities		**26,032**	29,805
Net assets		**1,796,570**	1,045,624
EQUITY			
Equity attributable to owners of the Company			
Issued capital	28	**15,482**	10,492
Reserves	30	**1,463,033**	1,035,132
		1,478,515	1,045,624
Non-controlling interests		**318,055**	–
Total equity		**1,796,570**	1,045,624

Wu Jing
Director

Zhang Jian
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Attributable to owners of the parent										
	Issued capital RMB'000 (note 28)	Share premium account RMB'000 (note 30(a))	Statutory surplus reserve RMB'000 (note 30(b))	Safety fund surplus reserve RMB'000 (note 30(c))	Share option reserve RMB'000 (note 29)	Difference arising from acquisition of non-controlling interests RMB'000	Contributed surplus RMB'000 (note 30(d))	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2015	10,492	866,908	12,685	760	3,850	(19,048)	26,636	64,942	967,225	–	967,225
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	75,407	75,407	–	75,407
Transfer from reserves	–	–	8,475	–	–	–	–	(8,475)	–	–	–
Establishment for safety fund surplus reserve	–	–	–	238	–	–	–	(238)	–	–	–
Utilisation of safety fund	–	–	–	(291)	–	–	–	291	–	–	–
Equity-settled share option arrangement	–	–	–	–	2,992	–	–	–	2,992	–	2,992
Transfer of share option reserve upon the forfeiture or expiry of share options	–	–	–	–	(584)	–	–	584	–	–	–
At 31 December 2015 and 1 January 2016	10,492	866,908*	21,160*	707*	6,258*	(19,048)*	26,636*	132,511*	1,045,624	–	1,045,624
Loss and total comprehensive loss for the year	–	–	–	–	–	–	–	(546)	(546)	–	(546)
Issue of new shares	4,990	432,867	–	–	–	–	–	–	437,857	–	437,857
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	318,055	318,055
Transfer from reserves	–	–	2,437	–	–	–	–	(2,437)	–	–	–
Establishment for safety fund surplus reserve	–	–	–	64	–	–	–	(64)	–	–	–
Utilisation of safety fund	–	–	–	(106)	–	–	–	106	–	–	–
Equity-settled share option arrangement	–	–	–	–	(4,420)	–	–	–	(4,420)	–	(4,420)
Transfer of share option reserve upon the forfeiture or expiry of share options	–	–	–	–	(175)	–	–	175	–	–	–
At 31 December 2016	15,482	1,299,775*	23,597*	665*	1,663*	(19,048)*	26,636*	129,745*	1,478,515	318,055	1,796,570

* These reserve accounts comprise the consolidated reserves of RMB1,463,033,000 (2015: RMB1,035,132,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**9,649**	100,633
Adjustments for:			
Depreciation of items of property, plant and equipment	13	**9,946**	7,188
Depreciation of investment properties	14	**3,389**	–
Amortisation of prepaid land lease payments	15	**266**	266
Amortisation of intangible assets	16	**385**	598
Impairment of trade receivables	19	**5,099**	5,482
Loss on disposal and write-off of items of property, plant and equipment	8	**4,041**	32
Deferred income released to profit or loss	25	**(210)**	(210)
Equity-settled share option expense	29	**(4,420)**	2,992
Finance costs	7	**24,317**	16,606
Unrealised foreign exchange losses, net		**3,369**	295
Bank interest income	6	**(9,346)**	(19,416)
		46,485	114,466
Decrease/(increase) in trade receivables		**35,063**	(6,967)
Increase in inventories		**(106,739)**	(2,724)
Decrease in prepayments, deposits and other receivables		**58,958**	10,824
Increase/(decrease) in trade and bills payables		**(24,466)**	47,146
Increase/(decrease) in other payables and accruals		**(13,977)**	6,686
Cash generated from operations		**(4,676)**	169,431
Income tax paid		**(11,844)**	(18,135)
Interest paid		**(22,762)**	(15,834)
Interest received		**17,213**	22,292
Net cash flows from/(used in) operating activities		**(22,069)**	157,754

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		**(316,478)**	(12,741)
Purchase of mining rights		**(2,425)**	(9,300)
Purchase of software		**–**	(138)
Acquisition of subsidiaries	31	**(288,661)**	(249,995)
Proceeds from disposal of items of property, plant and equipment		**1,099**	12
Decrease in time deposits with maturity of over three months		**571,428**	287,072
Purchase of land use rights		**(172,412)**	–
Decrease/(increase) in restricted deposits		**(66,195)**	7,826
Net cash flows from/(used in) investing activities		**(273,644)**	22,736
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bank loans		**218,890**	192,376
Repayment of bank loans		**(148,808)**	(190,676)
Net cash flows from financing activities		**70,082**	1,700
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(225,631)**	182,190
Cash and cash equivalents at beginning of the year		**289,896**	108,001
Effect of foreign exchange rate changes, net		**(3,369)**	(295)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**60,896**	289,896
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash on hand and cash at banks		**60,896**	289,896
Non-pledged time deposits	21	**–**	571,428
Cash and bank balances	21	**60,896**	861,324
Time deposits with original maturity of over three months	21	**–**	(571,428)
Cash and cash equivalents		**60,896**	289,896

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

1. CORPORATE AND GROUP INFORMATION

ArtGo Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The Company's principal place of business in Hong Kong is located at 16/F, Nan Fung Tower, 173 Des Voeux Road Centre, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the business of mining, processing, sale of marble stones, and trading of commodities.

In the opinion of the directors, the Company does not have an immediate holding company or ultimate holding company. Maswin International (Hong Kong) Co., Limited, a company incorporated in the Hong Kong, is in a position to exercise significant influence over the Company.

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Place and date of incorporation/registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company %	Principal activities
Directly held:				
ArtGo Investment Limited	BVI 26 September 2011	US$1	100	Investment holding
Indirectly held:				
ArtGo (HK) Investment Group Limited 雅高(香港)投資集團有限公司 ("ArtGo HK")	Hong Kong 3 October 2011	HK$100	100	Investment holding
Huijin Stone (Xiamen) Co., Ltd. 匯金石(廈門)有限公司(1) ("Xiamen Huijin Stone")	PRC/Mainland China 19 October 2011	US$90,000,000	100	Retail and wholesale of decorating materials
ArtGo Xinxing (Chongqing) Industrial Co. Ltd. 雅高鑫興(重慶)實業有限公司(1) ("ArtGo Chongqing")	PRC/Mainland China 26 May 2016	US$100,000,000	100	Retail and wholesale of decorating materials and chemical products

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

1. CORPORATE AND GROUP INFORMATION – *continued*

Name	Place and date of incorporation/registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company %	Principal activities
ArtGo Stone (Jiangxi) Co., Ltd. 雅高石材（江西）有限公司[1] ("ArtGo Stone")	PRC/Mainland China 17 September 2013	US$18,000,000	100	Processing and sale of marble stones; and technical service of stone processing
ArtGo (Shanghai) Industrial Co., Ltd. 雅高(上海)實業有限公司[1] ("ArtGo Shanghai")	PRC/Mainland China 26 April 2016	HK$40,000,000	100	Retail and wholesale of decorating materials and chemical products
ArtGo (Jiangsu) Technique Industrial Co., Ltd. 雅高(江蘇)科技實業有限公司[1] ("ArtGo Jiangsu")	PRC/Mainland China 19 April 2016	US$50,000,000	100	Retail and wholesale of decorating materials and chemical products
Fujian Nan'an ArtMore Stone Co., Ltd. 福建南安之尚石業有限公司[2] ("ArtMore Stone")	PRC/Mainland China 24 September 2015	RMB1,000,000	100	Processing and sale of marble stones
Jiangxi Jueshi (Yongfeng) Mining Co., Ltd. 江西省玨石(永豐)礦業有限公司[2] ("Jueshi Mining")	PRC/Mainland China 28 December 2009	RMB60,000,000	100	Mining exploration, processing and sale of marble stones
Jiangxi Jueshi (Ji'an) Mining Co., Ltd. 江西省玨石(吉安)礦業有限公司[2] ("Ji'an Mining")	PRC/Mainland China 21 January 2012	RMB140,000,000	100	Mining investment, mining planting projects and sale of decoration materials
Shanghai Yunyi Enterprise Management Co., Ltd. 上海韻義企業管理有限公司[2] ("Shanghai Yunyi")	PRC/Mainland China 10 October 2012	RMB80,000,000	100	Enterprise management and investment consulting

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

1. CORPORATE AND GROUP INFORMATION – *continued*

Name	Place and date of incorporation/registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company %	Principal activities
Evoke Investment Limited. ("Evoke Investment ")	BVI 20 October 2016	HK$10,000	100	Investment holding
Chancellor Investment Limited ("Chancellor Investment")	BVI 20 December 2016	US$1	100	Investment holding
Guanyang County Guiguan Stone Co., Ltd. 灌陽縣桂灌石材有限責任公司[2] ("Guiguan Stone")	PRC/Mainland China 9 January 2009	RMB5,000,000	51	Mining exploration, processing and sale of marble stones
Guizhou County Dejiang SanXin Stone Co., Ltd. 貴州德江三鑫石材有限公司[2] ("Sanxin Stone")	PRC/Mainland China 11 April 2014	RMB20,000,000	80	Mining exploration, processing and sale of marble stones

(1) Xiamen Huijin Stone, ArtGo Stone, ArtGo Chongqing, ArtGo Xuyi, ArtGo Shanghai and ArtGo Jiangsu are registered as wholly-foreign-owned enterprises under People's Republic of China ("PRC") law.

(2) Jueshi Mining, ArtMore Stone, ArtGo Ji'an, Shanghai Yunyi, Ji'an Mining, Guiguan Stone and Sanxin Stone are registered as domestic enterprises under PRC law.

During the year, the Group acquired Shanghai Yunyi, Evoke Investment, Chancellor Investment, Guiguan Stone and Sanxin Stone from independent third parties. Further details of these acquisitions are included in note 31 to the financial statements.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by the International Accounting Standards Board (the "IASB") and International Accounting Standards ("IASs") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect. They have been prepared under the historical cost convention. 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 for the year ended 31 December 2016. A subsidiary is an 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 Company. 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.

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 investments 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*
Amendments to IAS 27	*Equity Method in Separate Financial Statements*
Annual Improvements 2012–2014 Cycle	Amendments to a number of IFRSs

The adoption of the above new and revised standards has had no significant financial effect on these financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[2]
IFRS 9	*Financial Instruments*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[2]
Amendment to IFRS 15	*Revenue from Contracts with Customers (Clarifications to IFRS 15)*[2]
Amendments to IAS 40	*Transfers of Investment Property*[2]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[2]
IFRS 16	*Leases*[3]
Amendments to IAS 7	*Disclosure Initiative* [1]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
Annual Improvements 2014–2016 Cycle	Amendments to IFRS 12[1]
Annual Improvements 2014–2016 Cycle	Amendments to IFRS 1[2]
Annual Improvements 2014–2016 Cycle	Amendments to IAS 28[2]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but is available for adoption

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs — *continued*

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

The IASB issued amendments to IFRS 2 in June 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. The Group expects that the adoption of IFRS 9 will have an impact on the classification and measurement of the Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt IFRS 15 on 1 January 2018 and is currently assessing the impact of IFRS 15 upon adoption.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs — *continued*

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases — Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt IFRS 16 on 1 January 2019 and is currently assessing the impact of IFRS 16 upon adoption.

Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Business combinations and goodwill — *continued*

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the (a) consideration transferred, (b) the amount recognised for non-controlling interests; and (c) any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Business combinations and goodwill — *continued*

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

When the acquisition of subsidiaries does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognised.

Merger accounting for business combinations under common control

The consolidated financial statements include the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling parties.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Fair value measurement — *continued*

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and deferred tax assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation of items of property, plant and equipment, other than mining infrastructure, is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

	Useful lives	Principal annual rates
Buildings	3–5 years	19%–32%
Plant and machinery	5–10 years	10%–19%
Office equipment	5 years	19%
Motor vehicles	7–10 years	10%–14%

Depreciation of mining infrastructure is calculated using the unit-of-production ("UOP") method to write off the cost of the assets in proportion to the extraction of the proved and probable mineral reserves. The estimated useful lives of the mining infrastructure is 30 years, which is determined in accordance with the production plans of the entity concerned and the proved and probable reserves of mines using the UOP method.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents items of property, plant and equipment under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Property, plant and equipment and depreciation — *continued*

Stripping activity asset

Stripping activity asset shall be recognised if, and only if, all of the following are met: (a) it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the Group; (b) the Group can identify the component of the ore body for which access has been improved; and (c) the costs relating to the stripping activity associated with that component can be measured reliably. If all of the criteria are not met, the production stripping costs are charged to profit or loss as operating costs as they are incurred.

When the costs of the stripping activity asset and the inventory produced are not separately identifiable, the Group shall allocate the production stripping costs between the inventory produced and the stripping activity asset by using an allocation basis that is based on quantities of waste removed in the stripping activity and inventory production.

The stripping activity asset shall be depreciated or amortised on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity.

Investment properties

Investment properties are properties held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Intangible assets — *continued*

Mining rights

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

Software

Purchased software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 10 years.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. During the year ended 31 December 2015 and 2016, the Group only held loans and receivables. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Financial assets — *continued*

Subsequent measurement

The subsequent measurement of loans and receivables is as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in "Other income and gains" in profit or loss. The loss arising from impairment is recognised in profit or loss in "Finance costs" for loans and in "Other expenses" for receivables.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the assets. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

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. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified 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). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to "Other expenses" in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, or loans and borrowings, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities included trade and other payables and interest-bearing bank loans, all of which were classified as loans and borrowings.

Subsequent measurement

The subsequent measurement of loans and borrowings is as follows:

Loans and borrowings

After initial recognition, interest-bearing bank loans are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are integral part of the effective interest rate. The effective interest rate amortisation is included in "Finance costs" in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of finished goods, comprises direct materials, direct labour and an appropriate proportion of fixed and variable overhead costs, including depreciation and amortisation incurred in converting materials into finished goods, based on the normal production capacity. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in "Finance costs" in profit or loss.

Provisions for the Group's obligations for rehabilitation are based on estimates of the required expenditure at the mines in accordance with the rules and regulations of the PRC. The obligation generally arises when the asset is installed or the ground environment is disturbed at the production location. The Group estimates its liabilities for final rehabilitation and mine closure based upon detailed calculations of the amount and timing of the future cash expenditure to perform the required work. Spending estimates are escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability such that the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation. When the liability is initially recognised, the present value of the estimated cost is capitalised by increasing the carrying amount of the related mining infrastructure.

Over time, the discounted liability increases for the change in present value based on the appropriate discount rate. The periodic unwinding of the discount is recognised within "Finance costs" in profit or loss. The asset is depreciated using the UOP method over its expected life and the liability is accreted to the projected expenditure date. Additional disturbances or changes in estimates (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities) will be recognised as additions or charges to the corresponding assets and rehabilitation liabilities when they occur at the appropriate discount rate.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investment in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Income tax — *continued*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

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 sale 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) 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 or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(c) rental income, on a time proportion basis over lease terms;

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 29 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Share-based payments — *continued*

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Other employee benefits

Pension scheme

The employees of the Group's subsidiaries which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The Group has no obligation for the payment of retirement benefits beyond the annual contributions. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

Housing fund

Contributions to a defined contribution housing fund administered by the Public Accumulation Funds Administration Centre in Mainland China are charged to profit or loss as incurred. The Group's liability in respect of the housing fund is limited to the contribution payable in each period.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using the functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of each reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

3. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's financial statements requires management to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets and liabilities affected in the future.

Estimation uncertainty

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

(a) *Impairment of receivables*

Impairment of receivables is estimated based on an assessment of the recoverability of receivables. The assessment of impairment of receivables involves the use of estimates and judgements. An estimate for doubtful debts is made when collection of the full amount under the invoice is no longer probable, as supported by objective evidence using available contemporary and historical information to evaluate the exposure. Bad debts are written off as incurred. Where the actual outcome or expectation in the future is different from the original estimates, such differences will affect the carrying value of receivables and thus the impairment loss in the period in which such estimate is changed. The impairment provision for trade receivables and prepayments, deposits and other receivables as at 31 December 2016 was RMB10,581,000 (2015: RMB5,482,000). Further details are given in note 19 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

3. SIGNIFICANT ACCOUNTING ESTIMATES — *continued*

Estimation uncertainty — *continued*

(b) *PRC corporate income tax ("PRC CIT")*

The Group's operating subsidiaries in Mainland China are subject to PRC CIT. As a result of the fact that certain matters relating to PRC CIT have not been confirmed by the relevant local tax authorities, objective estimates based on currently enacted tax laws, regulations and other related policies are required in determining the provision for PRC CIT to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact the income tax and tax provision in the period in which the differences realise. The carrying amount of PRC CIT payables as at 31 December 2016 was RMB24,636,000 (2015: RMB24,376,000).

(c) *Depreciation of mining right and properties*

Mining right and properties costs are depreciated using the unit of production method (the "UOP"). The calculation of the UOP rate of depreciation, and therefore the annual depreciation charge to operations, can fluctuate from initial estimates. This could generally result when there are significant changes in any of the factors or assumptions used in estimating mine reserves, notably changes in the geology of the reserves and assumptions used in determining the economic feasibility of the reserves. Such changes in reserves could similarly impact the useful lives of assets depreciated on a straight-line basis, where those lives are limited to the life of the project, which, in turn is limited to the life of the proved and probable mineral reserves. Estimates of proved and probable reserves are prepared by experts in extraction, geology and reserve determination. Assessments of UOP rates against the estimated reserve base and the operating and development plan are performed regularly.

(d) *Useful lives of property, plant and equipment*

The Group estimates useful lives and related depreciation charges for its items of 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 its competitors. Management will increase the depreciation charge where useful lives are less than previously estimated, or it will record an impairment provision for technically obsolete assets that have been abandoned. The carrying amount of property, plant and equipment as at 31 December 2016 was RMB60,866,000 (2015: RMB65,346,000). Further details are given in note 13 to the financial statements.

(e) *Deferred tax assets*

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilised based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying amount of deferred tax assets at 31 December 2016 was RMB9,537,000 (2015: RMB7,721,000). Further details are contained in note 27 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

3. SIGNIFICANT ACCOUNTING ESTIMATES — *continued*

Estimation uncertainty — *continued*

(f) *Mine reserves*

Engineering estimates of the Group's mine reserves are inherently imprecise and represent only approximate amounts because of the significant judgements involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated mine reserves can be designated as "proved" and "probable". Proved and probable mine reserve estimates are updated at regular intervals taking into account recent production and technical information about each mine. In addition, as prices and cost levels change from year to year, the estimate of proved and probable mine reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in the amortisation rate calculated on the UOP method and the time period for discounting the rehabilitation provision. Changes in the estimate of mine reserves are also taken into account in impairment assessments of non-current assets.

(g) *Provision for rehabilitation*

Provision for rehabilitation is based on estimates of future expenditures incurred by management to undertake rehabilitation and restoration work which are discounted at a rate of 6.13% (2015: 6.13%) as at 31 December 2016 to reflect the term and nature of the obligation to their present value. Significant estimates and assumptions are made in determining the provision for rehabilitation as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases and changes in the discount rate. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at the end of the reporting period represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognised in the consolidated statement of financial position by adjusting the rehabilitation asset and liability. The carrying amount of provision for rehabilitation as at 31 December 2016 was RMB13,323,000 (2015: RMB12,493,000). Further details are given in note 26 to the financial statements.

(h) *Net realisable value of inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated cost to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience of selling products of a similar nature. Management reassesses these estimates at the end of each reporting period. The carrying amount of inventories as at 31 December 2016 was RMB179,361,000 (2015: RMB72,622,000). Further details are given in note 18 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

3. SIGNIFICANT ACCOUNTING ESTIMATES *— continued*

Estimation uncertainty *— continued*

(i) *Impairment of non-current assets (other than goodwill)*

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Definite life non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. The impairment provisions for property, plant and equipment and intangible assets as at 31 December 2016 were Nil (2015: Nil).

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two (2015: one) reportable operating segments as follows:

(a) the marble products segment is a supplier of marble blocks and slabs mainly for further processing, construction or trading;

(b) the commodity trading segment conducts trading business of commodities.

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 profit/loss, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit 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, pledged deposits, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

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

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

4. OPERATING SEGMENT INFORMATION — *continued*

Year ended 31 December 2016

	Marble products RMB'000	Commodity trading RMB'000	Total RMB'000
SEGMENT REVENUE	117,200	942,257	1,059,457
Segment results	25,604	12,410	38,014
Reconciliation:			
Interest income			9,346
Foreign currency losses, net			(3,652)
Financial costs			(24,317)
Corporate and other unallocated expenses			(9,742)
Profit before tax			9,649
Segment assets	2,010,427	2,491	2,012,918
Reconciliation:			
Deferred tax assets			9,537
Pledged deposits			94,226
Cash and cash equivalents			60,896
Corporate and other unallocated assets			100,856
Total assets			2,278,433
Segment liabilities	452,796	2,202	454,998
Reconciliation:			
Tax payable			24,636
Deferred tax liabilities			2,229
Total liabilities			481,863
OTHER SEGMENT INFORMATION			
Impairment losses recognised in the statement of profit or loss	5,099	–	5,099
Depreciation and amortisation	13,986	–	13,986

For the year ended 31 December 2015, the Group's revenue and contribution to consolidated results were derived from its sale of marble and marble related products, which was regarded as a single reportable segment in a manner consistent with the way in which information is reported internally to the Group's senior management for the purposes of resource allocation and performance assessment.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

4. OPERATING SEGMENT INFORMATION — *continued*

Geographical information

The following table sets out information about the geographical locations of external customers from which the Group's revenue is derived during the year. The geographical locations of the customers are determined based on the locations at which the goods were delivered.

	2016 RMB'000	2015 RMB'000
Domestic*:		
Mainland China	1,044,790	311,690
Overseas	14,667	20,527
	1,059,457	332,217

* Place of domicile of the Group's principal subsidiaries, Jueshi Mining, Guiguan Stone, Sanxin Stone, Xiamen Huijin Stone, Ji'an Mining, ArtGo Stone, ArtGo Chongqing, ArtGo Jiangsu, Shanghai Yunyi and ArtGo Shanghai.

The Group's principal non-current assets were located in Mainland China.

Information about major customers

Revenue from each of the major customers, which amounted to 10% or more of the total revenue, is set out below:

	2016 RMB'000	2015 RMB'000
Customer A	465,103	*
Customer B	172,650	*

* Less than 10% of the total revenue

5. REVENUE

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, net of various types of government surcharges.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

5. REVENUE — *continued*

Entity-wide disclosures

Information about products

The following table sets forth the total revenue from external customers by product and the percentage of total revenue by product during the year:

	2016		2015	
	RMB'000	%	RMB'000	%
One-side-polished slabs	31,750	3	94,312	28
Cut-to-size slabs	27,645	3	106,787	32
Marble blocks	57,805	5	131,118	40
Commodity trading	942,257	89	–	–
	1,059,457	100	332,217	100

6. OTHER INCOME AND GAINS

An analysis of other income and gains is as follows:

	2016	2015
	RMB'000	RMB'000
Bank interest income	9,346	19,416
Rental income	3,709	–
Compensation for breach of contract	1,969	–
Foreign exchange gain, net	–	2,150
Government grants*	246	1,820
Deferred income released to profit or loss (note 25)	210	210
Miscellaneous	215	36
Total other income and gains	15,695	23,632

* There were no unfulfilled conditions or contingencies relating to these grants.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2016	2015
	RMB'000	RMB'000
Interest on bank loans	10,549	8,363
Interest on bills receivable discounted (note 19)	11,924	6,247
Interest on payables relating to the purchase of mining rights	1,014	1,215
Unwinding of a discount for rehabilitation (note 26)	830	781
	24,317	16,606

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

8. PROFIT BEFORE TAX

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

	Notes	2016 RMB'000	2015 RMB'000
Cost of inventories sold		**961,235**	154,448
Employee benefit expense (including directors' and chief executive's remuneration set out in note 9):			
Wages and salaries		**23,977**	33,435
Equity-settled share option expense	29	**(4,420)**	2,992
Welfare and other benefits		**921**	1,576
Pension scheme contributions			
— Defined contribution fund		**1,304**	2,118
Housing fund			
— Defined contribution fund		**1,408**	2,114
Total employee benefit expense		**23,190**	42,235
Depreciation of items of property, plant and equipment	13	**9,946**	7,188
Depreciation of investment properties	14	**3,389**	–
Amortisation of prepaid land lease payments	15	**266**	266
Amortisation of intangible assets	16	**385**	598
Depreciation and amortisation expenses		**13,986**	8,052
Minimum lease payments under operating leases:			
— Office		**6,715**	4,760
— Warehouses		**4,307**	4,677
— Parcels of land located at Shangsheng Village	20(a)	**819**	819
Auditors' remuneration		**2,700**	3,433
Foreign exchange loss/(gain), net		**3,652**	(2,150)
Impairment of trade receivables	19	**5,099**	5,482
Loss on disposal and write-off of items of property, plant and equipment		**4,041**	32
Rental income	6	**(3,709)**	–
Bank interest income	6	**(9,346)**	(19,416)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2016 RMB'000	2015 RMB'000
Fees	562	418
Other emoluments:		
Salaries, allowances and benefits in kind	1,640	2,199
Equity-settled share option expense	(811)	499
Pension scheme contributions	46	76
	875	2,774
	1,437	3,192

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2016 RMB'000	2015 RMB'000
Mr. Liu Jianhua	134	126
Mr. Wang Hengzhong	179	166
Mr. Hui Yat On[1]	76	–
Mr. Jin Sheng[2]	106	126
	495	418

(1) Mr. Hui Yat On was appointed as the Company's independent non-executive director on 8 June 2016.

(2) Mr. Jin Sheng resigned as the Company's independent non-executive director on 14 October 2016.

There were no other emoluments payable to the independent non-executive directors during the year (2015: Nil).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES — *continued*

(b) Executive directors, a non-executive director and the chief executive

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Equity-settled share option expense RMB'000	Total RMB'000
2016					
Executive directors					
Ms. Wu Jing[1]	–	364	1	–	365
Mr. Gu Weiwen[2]	–	371	1	–	372
Mr. Leung Ka Kit[3]	–	176	–	–	176
Mr. Zhang Jian[2]	–	259	2	–	261
Mr. Li Dingcheng	–	251	38	–	289
Mr. Liu Chuanjia[4]	–	132	1	–	133
Mr. Han Yingfeng	–	87	3	(811)	(721)
	–	1,640	46	(811)	875
Non-executive director					
Mr. Gu Zengca[5]	67	–	–	–	67
	67	1,640	46	(811)	942
2015					
Executive directors					
Mr. Liu Chuanjia	–	388	2	–	390
Mr. Wu Wenzhen[6]	–	1,294	23	–	1,317
Mr. Han Yingfeng	–	305	23	499	827
Mr. Li Dingcheng	–	212	28	–	240
	–	2,199	76	499	2,774
Non-executive director					
Mr. Wu Yun[7]	–	–	–	–	–
	–	2,199	76	499	2,774

(1) Ms. Wu Jing was appointed as the Company's executive director and the chief executive officer on 9 March 2016.

(2) Mr. Gu Weiwen and Mr. Zhan Jian were appointed as the Company's executive directors on 9 March 2016.

(3) Mr. Leung Ka Kit was appointed as the Company's executive director on 8 June 2016.

(4) Mr. Liu Chuanjia resigned as the Company's chief executive officer and executive director on 8 June 2016.

(5) Mr. Gu Zengcai On was appointed as the Company's non-executive director on 8 June 2016.

(6) Mr. Wu Wenzhen resigned as the Company's chief executive officer and executive director on 31 December 2015.

(7) Mr. Wu Yun is entitled to a director's fee of HK$1 per annum and resigned on 19 November 2015.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2015: Nil).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES — *continued*

(c) Five highest paid employees

The five highest paid employees during the year included one director who was also the chief executive (2015: one director who was also the chief executive), details of whose remuneration are set out in note 9(b) above. Details of the remuneration for the year of the remaining four (2015: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2016 RMB'000	2015 RMB'000
Salaries, allowances and benefits in kind	1,488	3,288
Equity-settled share option expense	446	1,995
Pension scheme contributions	65	28
	1,999	5,311

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2016	2015
Nil to HK$1,000,000	3	–
HK$1,000,001 to HK$2,000,000	1	4
	4	4

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

10. INCOME TAX

Pursuant to the rules and regulations of the Cayman Islands and BVI, the Group is not subject to any income tax in the Cayman Islands and BVI.

No provision for Hong Kong profits tax has been made as the Group had no taxable profits derived from or earned in Hong Kong during the year.

Pursuant to the income tax rules and regulations in the PRC, the subsidiaries located in Mainland China are liable for PRC CIT at a rate of 25% on the assessable profits generated during the year.

The major components of income tax expense were as follows:

	2016 **RMB'000**	2015 RMB'000
Current — Mainland China		
Charge for the year	**12,104**	27,998
Deferred (note 27)	**(1,909)**	(2,772)
	10,195	25,226

A reconciliation of the income tax expense applicable to profit before taxation at the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	2016 **RMB'000**	2015 RMB'000
Profit before tax	**9,649**	100,633
Tax at the respective statutory tax rates:		
— Mainland China subsidiaries, at 25%	**3,700**	28,176
— Hong Kong subsidiary, at 16.5%	**(849)**	(1,992)
Non-deductible expenses	**5,918**	2,135
Income not subject to tax	**(2,467)**	(2,868)
Tax losses not recognised (note 27)	**3,893**	–
Tax losses accumulated from previous periods	**–**	(225)
Income tax expense	**10,195**	25,226

11. DIVIDENDS

At a meeting of the board of directors held on 31 March 2017, the directors resolved not to declare any dividend to shareholders for the year ended 31 December 2016 (2015: Nil).

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic loss per share for the year ended 31 December 2016 is based on the loss for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 1,537,372,251 (2015: 1,333,334,000) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2016 and 2015 in respect of a dilution as the exercise prices of the Company's outstanding share options were higher than the average market prices of the Company's shares during the current and the prior years.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Mining infrastructure RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2016							
Cost:							
At 1 January 2016	16,070	28,407	13,000	6,172	13,578	5,192	82,419
Additions	3,361	9	1,457	5,235	–	113	10,175
Acquisition of subsidiaries (note 31)	–	–	–	1,201	–	–	1,201
Disposals	–	(2,259)	(6,773)	(951)	–	–	(9,983)
At 31 December 2016	19,431	26,157	7,684	11,657	13,578	5,305	83,812
Accumulated depreciation:							
At 1 January 2016	1,251	9,830	3,924	1,813	255	–	17,073
Acquisition of subsidiaries (note 31)	–	–	–	770	–	–	770
Provided for the year (note 8)	1,856	3,635	3,584	836	35	–	9,946
Disposals	–	(880)	(3,575)	(388)	–	–	(4,843)
At 31 December 2016	3,107	12,585	3,933	3,031	290	–	22,946
Net carrying amount:							
At 1 January 2016	14,819	18,577	9,076	4,359	13,323	5,192	65,346
At 31 December 2016	16,324	13,572	3,751	8,626	13,288	5,305	60,866
31 December 2015							
Cost:							
At 1 January 2015	1,622	25,831	5,054	6,105	13,578	6,046	58,236
Additions	–	2,576	571	–	–	20,898	24,045
Acquisition of a subsidiary (note 31)	–	–	74	128	–	–	202
Disposals	–	–	(3)	(61)	–	–	(64)
Transferred	14,448	–	7,304	–	–	(21,752)	–
At 31 December 2015	16,070	28,407	13,000	6,172	13,578	5,192	82,419
Accumulated depreciation:							
At 1 January 2015	678	6,478	1,444	1,180	125	–	9,905
Provided for the year	573	3,352	2,481	652	130	–	7,188
Disposals	–	–	(1)	(19)	–	–	(20)
At 31 December 2015	1,251	9,830	3,924	1,813	255	–	17,073
Net carrying amount:							
At 1 January 2015	944	19,353	3,610	4,925	13,453	6,046	48,331
At 31 December 2015	14,819	18,577	9,076	4,359	13,323	5,192	65,346

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

14. INVESTMENT PROPERTIES

	2016 RMB'000	2015 RMB'000
Carrying amount at 1 January	–	–
Acquisition of a subsidiary (note 31)	101,790	–
Depreciation provided for the year (note 8)	(3,389)	–
Carrying amount at 31 December	98,401	–

The Group's investment properties consist of commercial properties in Shanghai. The investment properties are leased to third parties under operating leases.

As at 31 December 2016, the fair value of the investment properties was estimated to be approximately RMB102,930,000 (2015: not applicable). The valuation was performed by Sichuan Shudi Real Estate Valuation Co., Ltd., an independent professionally qualified valuer. Selection criteria of the external valuer include market knowledge, reputation, independence and whether professional standards are maintained. The valuation is determined by discounting a projected cash flow series associated with the properties using risk-adjusted discount rates. The valuation takes into account expected market rental growth and occupancy rate of the respective properties. The discount rates used have been adjusted for the quality and location of the buildings and the tenant credit quality. The fair value of the investment properties measured at the end of the reporting period is categorised into Level 3 valuations: Fair value measured using significant unobservable inputs, as defined in IFRS 13 *Fair Value Measurement*.

15. PREPAID LAND LEASE PAYMENTS

	2016 RMB'000	2015 RMB'000
Carrying amount at 1 January	12,768	13,034
Acquisition of subsidiaries (note 31)	1,035	–
Amortisation during the year (note 8)	(266)	(266)
Carrying amount at 31 December	13,537	12,768
Portion classified as current assets (note 20)	(266)	(266)
Non-current portion	13,271	12,502

As at 31 December 2016, the Group's prepaid land lease payment with a carrying amount of RMB13,537,000 (2015: RMB12,768,000) was pledged as security for certain bank loans granted to the Group (note 24(a)).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

16. INTANGIBLE ASSETS

	Mining rights RMB'000	Software RMB'000	Total RMB'000
31 December 2016			
Cost at 1 January 2016, net of accumulated amortisation	**190,014**	**1,726**	**191,740**
Additions	**2,425**	**–**	**2,425**
Acquisition of subsidiaries (note 31)	**828,939**	**–**	**828,939**
Amortisation provided during the year (note 8)	**(170)**	**(215)**	**(385)**
At 31 December 2016	**1,021,208**	**1,511**	**1,022,719**
Analysed as:			
Cost	**1,026,703**	**2,006**	**1,028,709**
Accumulated amortisation	**(5,495)**	**(495)**	**(5,990)**
Net carrying amount	**1,021,208**	**1,511**	**1,022,719**
31 December 2015			
Cost at 1 January 2015, net of accumulated amortisation	76,237	1,176	77,413
Additions	–	723	723
Acquisition of a subsidiary (note 31)	114,202	–	114,202
Amortisation provided during the year	(425)	(173)	(598)
At 31 December 2015	190,014	1,726	191,740
Analysed as:			
Cost	195,339	2,006	197,345
Accumulated amortisation	(5,325)	(280)	(5,605)
Net carrying amount	190,014	1,726	191,740

As at 31 December 2016, the Group's mining rights of Zhangxi mine and Lingnan mines with a carrying amount of RMB116,627,000 (2015: not applicable) was pledged as security for certain bank loans granted to the Group (note 24(a)).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

17. PAYMENTS IN ADVANCE

	Note	2016 RMB'000	2015 RMB'000
In respect of the purchase of:			
Property, plant and equipment		308,149	1,946
Land use rights	(a)	172,412	–
		480,561	1,946

(a) Prepayment of RMB172,412,000 was made to Xuyi Bureau of Land and Resources for acquiring three parcels of land use rights.

18. INVENTORIES

	2016 RMB'000	2015 RMB'000
Finished goods	59,536	63,465
Work in progress	119,292	8,590
Materials and supplies	533	567
	179,361	72,622

19. TRADE RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	33,740	68,803
Impairment	(10,581)	(5,482)
	23,159	63,321

An aged analysis of the trade receivables (net of impairment) as at the end of the reporting period, based on the invoice date, is as follows:

	2016 RMB'000	2015 RMB'000
Within 1 month	7,702	8,532
1 to 3 months	6,145	25,174
3 to 6 months	5,479	26,928
6 to 12 months	1,717	1,854
Over 1 year	2,116	833
	23,159	63,321

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

19. TRADE RECEIVABLES — *continued*

The movements in provision for impairment of trade receivables are as follows:

	2016 RMB'000	2015 RMB'000
At beginning of year	5,482	–
Impairment losses recognised (note 8)	5,099	5,482
	10,581	5,482

As at 31 December 2016, trade receivables contained retention money receivables of RMB6,833,000 (2015: RMB15,003,000).

The Group's trading terms with its customers are mainly on credit, except for the new and minor customers, where payment in advance is normally required. The credit period is generally one month to six months, extending up to nine months for major customers. 5% of the sales of marble slabs are withheld by customers as retention money with respective due dates usually not more than one year after the delivery of goods.

Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. In view of the fact that the Group's trade receivables relate to a limited number of major customers, there is a concentration of credit risk. The Group maintains strict control over the settlements of its outstanding receivables and has a credit control department to minimise credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing and unsecured.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

19. TRADE RECEIVABLES — *continued*

Impairment of trade receivables recognised during the year ended 31 December 2016 represented a provision for individually impaired trade receivables of RMB5,099,000 (2015: RMB5,482,000) with a carrying amount before provision of RMB10,581,000 (2015: RMB6,043,000). The individually impaired trade receivables related to certain customers that were in financial difficulties, with whom the Group had stopped supplying goods, initiated discussions on repayment terms and is in the midst of monitoring their repayment schedules. Whilst the Group will continue to follow up closely on the receivable status, the recoverability of part of the receivables has specifically been affected by the weak market condition, may be delayed for a longer-than-expected period or part of the receivables may not be recoverable. As such, the Group had made an impairment provision of RMB5,099,000 for the year ended 31 December 2016. Despite such provision and longer-than-expected repayment periods, the Group will initiate necessary actions to recover these receivables in part or in full.

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2016 **RMB'000**	2015 RMB'000
Neither past due nor impaired	**17,966**	52,698
Past due but not impaired:		
Less than 1 month past due	**810**	1,166
Over 1 month and less than 3 months past due	**1,169**	8,266
Over 3 months past due	**3,214**	630
	23,159	62,760

Trade receivables that were neither past due nor impaired relate to a certain number of customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these past due balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

As at 31 December 2016, the Group endorsed certain bills receivable accepted by banks in the PRC to certain of its suppliers in order to settle the trade payables to these suppliers with a carrying amount in aggregate of RMB407,286,000 (2015: RMB283,496,000).

During the year, the Group has recognised interest expense of RMB11,924,000 (2015: RMB6,247,000) (note 7) on discounted bills.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	**2016 RMB'000**	2015 RMB'000
Current portion:			
Prepayments in respect of:			
— Processing fee		**2,928**	3,216
— Office rental		**68**	964
— Warehouse rental		**1,625**	2,773
— Lease of parcels of land located at Shangsheng Village	(a)	**819**	819
— Prepaid land lease payments to be amortised within one year (note 15)		**266**	266
— Purchase of materials and supplies		**202**	341
— Purchase of marble blocks and slabs		**55,969**	4,097
— Service fee		**696**	812
— Other		**76**	257
Deposits		**6,291**	4,807
Refundable deposits for acquisition of an associate	(b)	**50,000**	–
Interest income receivables		**–**	7,867
Deductible input value-added tax		**827**	404
Other receivable arising from acquisition of a subsidiary (note 31)		**–**	135,518
Due from a shareholder	(c)	**94,853**	–
Other receivables		**4,193**	1,445
		218,813	163,586
Non-current portion:			
Prepayments in respect of			
— Lease of parcels of land located at Shangsheng Village	(a)	**8,688**	9,506
— Cultivated land used tax	(d)	**5,480**	5,690
		14,168	15,196

Notes:

(a) The balances represent prepayments made to villagers for the use of parcels of land in Shangsheng Village for mining activities at the marble mine located in Yongfeng County, Jiangxi Province, the PRC ("Yongfeng Mine"). Based on the various agreements entered into among Jueshi Mining, the Shangsheng Village Committee and the villagers during each of the years ended 31 December 2012 and 2013, Jueshi Mining prepaid RMB2,134,000 and RMB10,146,000 in 2012 and 2013, respectively, for the rights to use the said parcels of land for a period of 15 years since the effective dates of the respective lease agreements.

(b) The balance represents a refundable deposit made for the acquisition of 24.5% equity interests in Jiangsu Gansheng Technology Co., Ltd. ("江蘇乾晟達科技有限公司"). The refundable deposit was fully collected subsequent to the reporting period.

(c) The balance represents the shortfall between the adjusted consideration for the acquisition of a subsidiary and the new shares of the Company allotted and issued for the acquisition during the year, which should be repaid by the corresponding shareholder within one year. Particulars of such arrangement were set out in the Company's announcement dated 30 December 2016. The balance was fully collected subsequent to the reporting period.

(d) The balance represents prepayments made to local authorities for occupation of cultivated land at the Yongfeng Mine. The prepayments will be charged to profit or loss on a straight-line method over the terms of mining right.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

21. RESTRICTED DEPOSITS, PLEDGED TIME DEPOSITS AND CASH AND BANK BALANCES

	2016 RMB'000	2015 RMB'000
Cash on hand and cash at banks	63,351	292,208
Time deposits with original maturity of:		
— over three months	94,226	599,602
	157,577	891,810
Less:		
Restricted deposits for environmental rehabilitation deposits	(2,455)	(2,312)
Pledged deposits for:		
— bills payable (note 22)	(92,826)	(28,174)
— interest-bearing bank loans (note 24(a))	(1,400)	–
	60,896	861,324

At the end of the reporting period, the Group's cash and bank balances are denominated in the following currencies:

	2016 RMB'000	2015 RMB'000
RMB	136,057	891,738
HK$	20,465	64
US$	159	8
	156,681	891,810

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between three months and one year, and earn interest at the respective deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

22. TRADE AND BILLS PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables	10,350	27,486
Bills payable	142,800	150,130
	153,150	177,616

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

	2016 RMB'000	2015 RMB'000
Within 1 month	73,377	7,990
1 to 2 months	1,538	74,643
2 to 3 months	544	4,734
Over 3 months	77,691	90,249
	153,150	177,616

The trade payables are non-interest-bearing and are normally settled within three months after the Company obtains the invoices issued by suppliers. Bills payable had maturity periods of six months.

As at 31 December 2016, the Group's bills payable of RMB142,800,000 were secured by pledged time deposits of RMB92,826,000 (note 21).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

23. OTHER PAYABLES AND ACCRUALS

	Notes	2016 RMB'000	2015 RMB'000
Current portion:			
Advances from customers		**6,059**	21,929
Payables relating to:			
Purchase of property, plant and equipment	(a)	**10,750**	10,850
Purchase of mining rights	(b)	**18,600**	9,300
Payroll and welfare		**10,704**	12,907
Taxes other than income tax		**7,226**	5,745
Professional fees		**6,638**	6,279
Mineral resources compensation fees		**5,501**	4,234
Rental fees		**2,410**	356
Distributors' earnest money		**1,920**	1,925
Security deposit		**1,886**	–
Land occupation fee		**936**	–
Purchase of software		**585**	585
Employee reimbursement		**526**	839
Advertisement fees		**449**	383
Vegetation restoration fee		**360**	–
Interest payables relating to:			
Bank loans		**398**	187
Purchase of mining rights	(b)	**3,707**	3,193
Others		**1,708**	2,057
		80,363	80,769
Non-current portion:			
Payables relating to:			
Purchase of mining rights	(b)	**–**	9,300
		–	9,300
		80,363	90,069

Notes:

(a) The balances represent payables in connection with the construction of a mining road and a processing plant located in Jiangxi.

(b) The balances represent payables in connection with the purchase of mining rights to the Yongfeng Mine. The payables are unsecured and bear interest at a rate with reference to the prevailing interest rate with the similar repayment term promulgated by the People's Bank of China, i.e., 4.75% per annum.

Except for the payables as described, all other payables of the Group are non-interest-bearing.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

24. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	2016 RMB'000	2015 RMB'000
Bank loans:			
Secured and guaranteed	(a)	56,000	–
Secured	(a)	54,890	29,600
Guaranteed	(b)	7,492	8,000
Unsecured		50,000	90,000
		168,382	127,600
Effective interest rate per annum (%)		5.66–7.00	5.66–6.53
Other borrowings:			
Secured and guaranteed	(a)	34,300	–
Effective interest rate per annum (%)		6.53	–
Analysed into:			
Bank loans repayable:			
Within one year		163,382	127,600
In the second year		5,000	–
		168,382	127,600
Other borrowings repayable:			
Within one year		34,300	–
Total bank and other borrowings		202,682	127,600
Portion classified as current liabilities		(197,682)	(127,600)
Non-current portion		5,000	–

(a) The Group's bank loans and other borrowings of approximately RMB145,190,000 as at 31 December 2016 (2015: RMB29,600,000) were secured by certain assets with net carrying values as follows:

	Notes	2016 RMB'000	2015 RMB'000
Secured by:			
Prepaid land lease payments	15	13,537	12,768
Mining rights to Zhangxi and Lingnan mines	16	116,627	–
Time deposits	21	1,400	–
		131,564	12,768

The Group's secured bank loans and other borrowings of approximately RMB90,300,000 as at 31 December 2016 (31 December 2015: Nil) were also jointly guaranteed by the Company's directors, Ms. Wu. Jing and Mr. Leung Ka Kit.

(b) The Group's bank loans of approximately RMB7,492,000 as at 31 December 2016 (31 December 2015: RMB8,000,000) were guaranteed by an independent third party, Xiamen Siming Technique Financial Guarantee Co., Ltd, with a guarantee charge of RMB80,000.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

25. DEFERRED INCOME

	RMB'000
Government grant	
At 1 January 2015	5,900
Released to profit or loss (note 6)	(210)
At 31 December 2015 and 1 January 2016	5,690
Released to profit or loss (note 6)	(210)
At 31 December 2016	5,480

Deferred income represents a government grant received by Jueshi Mining in respect of cultivated land use tax paid. Such government grant will be released to profit or loss on a straight-line method to match with the amortisation of prepayments in respect of the cultivated land use tax.

26. PROVISION FOR REHABILITATION

	2016	2015
	RMB'000	RMB'000
At the beginning of year	**12,493**	11,712
Unwinding of a discount (note 7)	**830**	781
At the end of year	**13,323**	12,493

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

27. DEFERRED TAX

The movements in deferred tax assets and deferred tax liabilities during the year are as follows:

Deferred tax assets

	Losses available for offsetting against future taxable profits RMB'000	Provision for rehabilitation RMB'000	Depreciation over book value of fixed assets RMB'000	Accrued expenses RMB'000	Unrealised profits from inter-company transactions RMB'000	Impairment of trade receivables RMB'000	Total RMB'000
At 31 December 2015	–	507	84	4,749	2,240	1,370	8,950
Deferred tax assets credited/ (charged) to profit or loss during the year (note 10)	886	207	128	1,271	(1,410)	1,275	2,357
At 31 December 2016	886	714	212	6,020	830	2,645	11,307

The Group has tax losses arising in Mainland China of RMB15,570,000 (2015: Nil) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Deferred tax liabilities

	Fair value adjustment arising from business combination RMB'000	Excess book value of mining rights over tax amortisation RMB'000	Total RMB'000
At 1 January 2016	2,322	1,229	3,551
Deferred tax charged/(credited) to profit or loss during the year (note 10)	(93)	541	448
At 31 December 2016	2,229	1,770	3,999

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

27. DEFERRED TAX — *continued*

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position. The following is an analysis of the deferred tax balances of the Group for reporting purposes:

	2016	2015
	RMB'000	RMB'000
Gross deferred tax assets	**11,307**	8,950
Gross deferred tax liabilities	**(1,770)**	(1,229)
Net deferred tax assets	**9,537**	7,721
Gross deferred tax assets	**–**	–
Gross deferred tax liabilities	**2,229**	2,322
Net deferred tax liabilities	**2,229**	2,322

Notes:

(a) Deferred tax assets and liabilities related to the subsidiaries in Mainland China have been provided at the enacted corporate income tax rate of 25%.

(b) Pursuant to the income tax rules and regulations in the PRC, a 10% withholding tax is levied on dividends declared to foreign investors by foreign investment enterprises established in the PRC effective from 1 January 2008.

At 31 December 2016, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors of the Company, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

The aggregate amount of unremitted earnings associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB197,800,000 (31 December 2015: RMB175,865,000).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

28. SHARE CAPITAL

Shares

	2016 RMB'000	2015 RMB'000
Authorised:		
3,000,000,000 ordinary shares of HK$0.01 each (2015: 3,000,000,000 ordinary shares of HK$0.01 each)	**23,651**	23,651
Issued and fully paid:		
1,911,334,000 ordinary shares of HK$0.01 each (2015: 1,333,334,000 ordinary shares of HK$0.01 each)	**15,482**	10,492

A summary of movements in the Company's share capital is as follows:

Issued share capital:

	Number of ordinary shares	Nominal value of ordinary shares RMB'000
At 1 January 2016	1,333,334,000	10,492
Issue of new shares for acquisition of subsidiaries	578,000,000	4,990
As at 31 December 2016	1,911,334,000	15,482

Notes:

On 18 March 2016, the Company allotted and issued an aggregate of 260,000,000 new ordinary shares of the Company as the consideration for the acquisition of the entire interest in Shanghai Yunyi (note 31). The aggregate fair value of the 260,000,000 ordinary shares, determined by reference to the closing quoted market price of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited at the acquisition date, amounted to RMB218,830,000, of which RMB2,145,000 and RMB216,685,000 were credited to the share capital and share premium account of the Company, respectively. As a result of the adjusted consideration for the acquired subsidiary, the shortfall of RMB117,040,000 shall be injected by the corresponding shareholder in cash within 1 year. Particulars of the above were set out in the Company's announcements dated 3 February 2016 and 30 December 2016, respectively. Among the shortfall, RMB22,187,000 had been injected by the corresponding shareholder by the end of 31 December 2016, and the remainder was injected subsequent to the reporting period.

On 30 December 2016, the Company allotted and issued an aggregate of 318,000,000 new ordinary shares of the Company as the consideration for the acquisition of the entire interest in Evoke Investment (note 31). The aggregate fair value of the 318,000,000 ordinary shares, determined by reference to the closing quoted market price of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited at the acquisition date, amounted to RMB219,027,000, of which RMB2,845,000 and RMB216,182,000 were credited to the share capital and share premium account of the Company, respectively. Particulars of the above were set out in the Company's announcement dated 19 December 2016.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

29. SHARE OPTION SCHEMES

On 9 December 2013, the Company has conditionally adopted a share option scheme (the "Pre-IPO Share Option Scheme") for the purpose of providing incentives and rewards to full-time or part-time employees, executives, officers or directors (including independent non-executive directors). The Pre-IPO Share Option Scheme will remain in force for 42 months from the date of listing unless otherwise cancelled or amended. Please refer to the 2013 annual report of the Company for details.

The following share options were outstanding under the Pre-IPO Share Option Scheme during the year:

	Notes	Exercise price HK$ per share	Number of options
As at 1 January 2016	(a)	2.39	10,800,008
Forfeited during the year	(b)	2.39	(8,400,006)
Expired during the year	(c)	2.39	(266,666)
As at 31 December 2016			2,133,336

Notes:

(a) The share options outstanding as at 1 January 2016 represented share options granted by the Company on 30 December 2013 at the exercise price of HK$2.39 per share.

(b) The share options granted to four eligible participants under the Pre-IPO Share Option Scheme were forfeited following their voluntary resignation during the year.

(c) The second batch of 266,666 share options expired without being exercised on 1 July 2016.

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2016:

Number of options	Exercise price HK$ per share	Exercise period
1,066,667	2.39	From 30 June 2016 to 30 June 2017
1,066,669	2.39	From 30 June 2017 to 30 June 2018
2,133,336		

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

29. SHARE OPTION SCHEMES — *continued*

2015:

Number of options	Exercise price HK$ per share	Exercise period
1,199,998	2.39	From 30 June 2015 to 30 June 2016
4,800,001	2.39	From 30 June 2016 to 30 June 2017
4,800,009	2.39	From 30 June 2017 to 30 June 2018
10,800,008		

The Group had 2,133,336 share options exercisable as at 31 December 2016 (2015: 10,800,008). The Group reversed a share option expense of HK$5,618,000 (equivalent to approximately RMB4,420,000) during the year ended 31 December 2016 (a share option expense recognised in 2015: HK$3,802,000, equivalent to approximately RMB2,992,000).

At the end of the reporting period, the Company had 2,133,336 share options outstanding under the Pre-IPO Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 2,133,336 additional ordinary shares of the Company and additional share capital of HK$21,333 and share premium of HK$5,077,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 2,133,336 share options outstanding under the Pre-IPO Share Option Scheme, which represented approximately 0.1% of the Company's shares in issue as at that date.

30. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 86 of the financial statements.

(a) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the constitutional documents and the Companies Law of the Cayman Islands, the share premium is distributable as dividend on the condition that the Company is able to pay its debts when they fall due in the ordinary course of business at the time the proposed dividend is to be paid.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

30. RESERVES — *continued*

(b) Statutory surplus reserve

In accordance with the Company Law of the PRC and the respective articles of association of subsidiaries domiciled in Mainland China, each of the PRC subsidiaries is required to allocate 10% of their profit after tax, as determined in accordance with PRC Generally Accepted Accounting Principles ("PRC GAAP"), to the statutory surplus reserve (the "SSR") until such reserve reaches 50% of its registered capital.

According to the articles of association of subsidiaries located in Mainland China, the subsidiaries are required to allocate 10% of its profit after tax in accordance with PRC GAAP to the SSR.

The SSR is non-distributable except in the event of liquidation and subject to certain restrictions set out in the relevant PRC regulations. It can be used to offset accumulated losses or capitalised as paid-up capital.

(c) Safety fund surplus reserve

Pursuant to a notice regarding Safety Production Expenditure jointly issued by the Ministry of Finance and the State Administration of Work Safety of the PRC in February 2012, the Group is required to establish a safety fund surplus reserve based on the volume of marble blocks extracted. The safety fund can only be transferred to retained earnings to offset safety related expenses as and when they are incurred, including expenses related to safety protection facilities and equipment improvement and maintenance as well as safety production inspection, appraisal, consultation and training.

(d) Contributed surplus

The contributed surplus as at the end of the reporting period represents (i) the aggregate amount of RMB33,636,000 of the considerations paid to the former shareholders of Jueshi Mining by Mr. Liu Chuanjia to acquire Jueshi Mining, (ii) after netting off the distribution to Mr. Liu by the Group on the acquisition of the entire equity interest in Jueshi Mining as part of the Reorganisation with the consideration of RMB7,000,000.

(e) Share option reserve

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

31. ACQUISITION OF SUBSIDIARIES

(a) Acquisition of Shanghai Yunyi

On 18 March 2016, the Group acquired 100% equity interests in Shanghai Yunyi from Mr. Wang Jiangze, an independent individual and the owner of Shanghai Yunyi, which is principally engaged in property investment. The purchase consideration for the acquisition was in the form of the allotment and issue of 260,000,000 ordinary shares by the Company at HK$1.02 per share at the date of acquisition (note 28), amounting to HK$265,200,000 (equivalent to approximately RMB218,830,000) in aggregate. Pursuant to a supplementary agreement dated 30 December 2016 entered into between the Company and Mr. Wang Jiangze, the purchase consideration was adjusted from RMB218,830,000 to RMB101,790,000 arising from the over-valuation of the commercial properties of Shanghai Yunyi as at the acquisition date, the shortfall of RMB117,040,000 arising from the adjusted consideration shall be injected to the Group in cash by Mr. Wang Jiangze within one year.

Particulars of the acquisition of the entire equity interests in Shanghai Yunyi were set out in the Company's announcements dated 3 February 2016 and 30 December 2016.

(b) Acquisition of Chancellor Investment

On 30 December 2016, the Group acquired 100% equity interests in Chancellor Investment from Mr. Dong Zhichao, an independent individual and the then owner of Chancellor Investment. Chancellor Investment indirectly owns 80% equity interests in Sanxin Stone, which holds the mining permit to a marble mine located at Dejiang County, Tongren City, Guizhou Province with an area of approximately 0.252 square kilometres, which will expire on 1 January 2019. Chancellor Investment and its subsidiaries (together, "Chancellor Group") are principally engaged in mining exploration of marble products. The purchase consideration for the acquisition was in the form of cash, with RMB240,000,000 paid at the acquisition date.

Particulars of the acquisition of the entire equity interests in Chancellor Investment were set out in the Company's announcement dated 29 December 2016.

(c) Acquisition of Evoke Investment

On 30 December 2016, the Group acquired 100% equity interests in Evoke Investment from Mr. Zhang Tao, an independent individual and the then owner of Evoke Investment. Evoke Investment indirectly owns 51% equity interests in Guiguan Stone, which holds the mining permits of two white stripe in black marble mines, located in Guanyang County, Guilin City, Guangxi Province, which will be expired on 7 December 2018 and 4 March 2018, respectively. Evoke Investment and its subsidiaries (together, "Evoke Group") are principally engaged in mining exploration of marble products. The purchase consideration of HK$300,265,000 (equivalent to approximately RMB268,586,000) for the acquisition was satisfied by cash amounting to RMB49,559,000 and the allotment and issue of 318,000,000 ordinary shares by the Company at HK$0.77 per share at the date of acquisition (note 28), amounting to HK$244,860,000 (equivalent to approximately RMB219,027,000) in aggregate.

Particulars of the acquisition of the entire equity interests in Evoke Investment were set out in the Company's announcement dated 19 December 2016.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

31. ACQUISITION OF SUBSIDIARIES — *continued*

The acquisitions of Shanghai Yunyi, Chancellor Group and Evoke Group have been accounted for as asset acquisitions, as these acquisitions did not have all required attributes of a business. The identified assets and liabilities as at the respective dates of acquisitions are as follows:

	Shanghai Yunyi RMB'000	Chancellor Group RMB'000	Evoke Group RMB'000	Total RMB'000
2016				
Property, plant and equipment (note 13)	–	431	–	431
Investment properties (note 14)	101,790	–	–	101,790
Prepaid land lease payments (note 15)	–	–	1,035	1,035
Mining rights (note 16)	–	299,229	529,710	828,939
Prepayments, deposits and other receivables	1,310	340	–	1,650
Cash and bank balances	2	–	896	898
Other payables	(1,312)	–	–	(1,312)
Interest-bearing bank loan	–	–	(5,000)	(5,000)
Non-controlling interests	–	(60,000)	(258,055)	(318,055)
Total identifiable net assets at fair value	101,790	240,000	268,586	610,376
Satisfied by cash	–	240,000	49,559	289,559
Satisfied by shares	101,790	–	219,027	320,817
	101,790	240,000	268,586	610,376

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	Shanghai Yunyi RMB'000	Chancellor Group RMB'000	Evoke Group RMB'000	Total RMB'000
Cash consideration	–	(240,000)	(49,559)	(289,559)
Cash and bank balances acquired	2	–	896	898
Net outflow of cash and cash equivalents during the year	2	(240,000)	(48,663)	(288,661)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

31. ACQUISITION OF SUBSIDIARIES — *continued*

The Group entered into a share transfer agreement on 8 December 2015 with Mr. Yang Yueliang and Ms Chen Feifei, the owners of Ji'an Mining and two independent third party individuals. Ji'an Mining owns the mining rights to two white marble stone mines located in Zhangxi village and Lingnan village in Jiangxi Province. The mining permits for Zhangxi mine and Lingnan mine are valid until 23 July 2018. Pursuant to the share transfer agreement, the Group conditionally agreed to acquire the entire equity interests in Ji'an Mining at a total consideration of RMB250,000,000, which was fully paid on 28 December 2015. The acquisition of Ji'an Mining was completed on 31 December 2015 when the Group acquired control over Ji'an Mining upon all the precedent conditions stated in the foresaid share transfer agreement being fulfilled.

Particulars of the acquisition of the entire equity interests in Ji'an Mining were set out in the Company's announcement dated 8 December 2015.

The acquisition of Ji'an Mining has been accounted for as an asset acquisition, as the acquisition had no attribution of a business. The identified assets and liabilities as at the respective date of acquisition were as follows:

	Ji'an Mining RMB'000
2015	
Property, plant and equipment (note 13)	202
Mining rights (note 16)	114,202
Prepayments, deposits and other receivables	135,518
Restricted deposits	610
Cash and bank balances	5
Other payables and accruals	(537)
Total identifiable net assets at fair value	250,000
Satisfied by cash	250,000

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	Ji'an Mining RMB'000
Cash consideration	(250,000)
Cash and bank balances acquired	5
Net outflow of cash and cash equivalents during the year	(249,995)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

32. CONTINGENT LIABILITIES

At the end of the reporting period, neither the Group nor the Company had any significant contingent liabilities.

33. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 14 to the financial statements) under operating lease arrangement with the term of 10 years. The term of the lease generally also requires the tenants to pay security deposits and provide for periodic rent adjustments with fixed rates.

At 31 December 2016, the Group had total future minimum lease receivables under non-cancellable operating lease with its tenants falling due as follows:

	2016 RMB'000	2015 RMB'000
Within one year	7,543	–
In the second to fifth years, inclusive	39,942	–
Over five years	32,963	–
	80,448	–

(b) As lessee

The Group leases certain of its office and warehouses under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

As at 31 December 2016 and 2015, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 RMB'000	2015 RMB'000
Within one year	11,326	9,635
In the second to fifth years, inclusive	17,090	20,751
	28,416	30,386

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group had the following capital commitments at the end of the reporting period:

	2016	2015
	RMB'000	RMB'000
Contracted, but not provided for:		
— Plant and equipment	**165,614**	23,613
— Land use rights	**32,787**	–
	198,401	23,613

35. RELATED PARTY TRANSACTIONS

(a) As at 31 December 2016, the Group had obtained bank loans and other borrowings aggregated to RMB90,300,000, which were guaranteed by Ms. Wu Jing and Mr. Leung Ka Kit with nil consideration.

(b) Outstanding share capital injection from a shareholder of the Company

As explained in note 28, the acquisition of Shanghai Yunyi was originally settled by the issuance of the Company's new shares, which resulted in a shortfall in the share capital injection. Pursuant to the supplementary agreement dated 30 December 2016 entered into between the Company and the corresponding shareholder, the outstanding share capital injection of RMB117,040,000 should be made within one year. The corresponding shareholder made a share capital injection of RMB22,187,000 on 31 December 2016 and fully settled the remaining balance subsequent to the reporting period.

(c) Compensation of key management personnel of the Group

	2016	2015
	RMB'000	RMB'000
Basic salaries and other benefits	**4,520**	6,783
Equity-settled share option expense	**(2,528)**	2,494
Pension scheme contributions	**166**	179
Total compensation paid to key management personnel	**2,158**	9,456

Further details of directors' and the chief executive's emoluments are included in note 9 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments approximate to their fair values, either due to the short-term maturity, or, in the case of financial instruments with longer-term maturity, as they bear interest at market rates.

At the end of 2016 and 2015, there were no financial assets and liabilities carried at fair value in the consolidated statements of financial position of the Group.

Financial liabilities related to the non-current portion of other payables for the purchase of mining rights were categorised within Level 2 as the fair value measurement hierarchy of such payables does not require significant unobservable inputs.

The fair value of interest-bearing bank loans and other payables relating to the purchase of mining rights has been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The financial assets of the Group mainly include cash and bank balances, trade receivables, and other receivables, which arise directly from its operations. Financial liabilities of the Group mainly include trade and bills payables, other payables and interest-bearing bank loans.

Risk management is carried out by the finance department which is led by the Group's senior management. The Group's finance department identifies and evaluates financial risks in close co-operation with the Group's operating units. The main risks arising from the Group's financial instruments are credit risk, foreign currency risk, liquidity risk and interest rate risk.

The Group's financial risk management policy seeks to ensure that adequate resources are available to manage the above risks and to create value for its shareholders. The board regularly reviews these risks and they are summarised below:

Credit risk

The carrying amounts of cash and bank balances and time deposits, trade receivables, and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets.

Substantial amounts of the Group's cash and bank balances and time deposits are held in major reputable financial institutions located in Mainland China and Hong Kong, which management believes are of high credit quality. The credit risk of the Group's other financial assets, which comprise trade and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Group has no other financial assets which carry significant exposure to credit risk.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES — *continued*

Credit risk — *continued*

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. As the end of the reporting period, the Group had a concentration of credit risk as 58% (2015: 46%) of the Group's trade receivables of approximately RMB13,359,000 (2015: RMB29,280,000) were derived from five customers. Concentrations of credit risk are managed by customer and by geographical region, and all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, the finance department and the sales department confirm the balance of trade receivables every month with customers. In respect of the credit quality of customers, the Group has adopted and will continue to implement a customer appraisal program to review its receivables, assess each customer's credibility and ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that credit risk is significantly reduced.

Foreign currency risk

The Group's businesses are located in Mainland China and most of the transactions are conducted in RMB. Most of the Group's assets and liabilities are denominated in RMB, except for certain trade receivables, other payables and cash at banks which are denominated in HK$ and US$.

The Group has not entered into any hedging transactions to manage the potential fluctuation in foreign currencies.

The following table demonstrates the sensitivity to a 5.0% change in RMB against US$ and HK$, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of cash and bank balances denominated in US$ and HK$, and trade receivables and other payables denominated in US$).

	2016	2015
	RMB'000	RMB'000
Increase/(decrease) in profit before tax:		
If RMB weakens against US$	**87**	197
If RMB strengthens against US$	**(87)**	(197)
If RMB weakens against HK$	**2,137**	346
If RMB strengthens against HK$	**(2,137)**	(346)

Liquidity risk

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES — *continued*

Liquidity risk — *continued*

The maturity profile of the Group's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	31 December 2016				
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 4 years RMB'000	Total RMB'000
Interest-bearing bank loans and other borrowings	**15,300**	**72,778**	**117,260**	**5,233**	**210,571**
Trade and bills payables	**10,350**	**71,400**	**71,400**	**–**	**153,150**
Other payables and accruals	**44,901**	**7,368**	**5,480**	**–**	**57,749**
	70,551	**151,546**	**194,140**	**5,233**	**421,470**

	31 December 2015				
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 4 years RMB'000	Total RMB'000
Interest-bearing bank loans	–	11,907	120,007	–	131,914
Trade and bills payables	27,486	100,130	50,000	–	177,616
Other payables and accruals	48,396	–	9,410	9,852	67,658
	75,882	112,037	179,417	9,852	377,188

Interest rate risk

The Group's exposure to interest rate risk relates primarily to the Group's bank deposits and interest-bearing bank loans. The interest rates and terms of repayment of interest-bearing loans are disclosed in note 24.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or raise new capital from its investors.

No changes were made in the objectives, policies or processes for managing financial risks during the year.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	1,293,261	863,429
CURRENT ASSETS		
Prepayments, deposits and other receivables	50,177	166
Cash at banks	8	63
Total current assets	50,185	229
CURRENT LIABILITIES		
Other payables and accruals	2,640	5,200
Due to subsidiaries	70,095	18,827
Total current liabilities	72,735	24,027
NET CURRENT LIABILITIES	(22,550)	(23,798)
Net assets	1,270,711	839,631
EQUITY		
Issued capital	15,482	10,492
Reserves (note 30)	1,255,229	829,139
Total equity	1,270,711	839,631

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY — *continued*

Note:

The movements in the Company's reserves are as follows:

	Notes	Share premium account RMB'000	Capital contribution reserve RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2015		643,032	223,876	3,850	(49,558)	821,200
Equity-settled share option arrangement	29	–	–	2,992	–	2,992
Total comprehensive income for the year		–	–	–	4,947	4,947
Transfer of share option reserve upon the expiry of share options		–	–	(584)	584	–
At 31 December 2015 and 1 January 2016		643,032	223,876	6,258	(44,027)	829,139
Issue of new shares		432,867	–	–	–	432,867
Equity-settled share option arrangement	29	–	–	(4,420)	–	(4,420)
Total comprehensive loss for the year		–	–	–	(2,357)	(2,357)
Transfer of share option reserve upon the expiry of share options		–	–	(175)	175	–
At 31 December 2016		1,075,899	223,876	1,663	(46,209)	1,255,229

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

39. EVENT AFTER THE REPORTING PERIOD

On 13 February 2017, the Group and Mr. Xue Zhangming entered into a conditional equity transfer agreement in respect of the proposed acquisition of the 49% equity interest in Techluxe International Holding Limited. Techluxe International Holding Limited and its subsidiaries mainly engage in mining exploration, processing and the sale of marble products. The proposed purchase consideration was RMB280 million. A refundable deposits of RMB10 million has been made up to the date of approval of these financial statements. In the meantime, in order to better secure the possible acquisition and to show the Group's earnest of as well as its financial ability in completing the transaction, the Group agreed with Mr. Xue Zhangming to deposit a sum of RMB105 million as escrow money with an escrow agent ("Escrow Agent") who is acceptable to both Mr. Xue Zhangming and the Group. The escrow account was commonly controlled by the Escrow Agent and the Group and no withdrawal from the escrow account can be made without the prior approval and signature of the Group.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2017.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results, assets and liabilities of the Group for the years ended 31 December 2012, 2013, 2014, 2015 and 2016, as extracted from the published audited financial statements, is set out below:

RESULTS

	Year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE					
Cost of sales	**1,059,457**	332,217	344,339	139,775	8,210
Gross profit	**(961,235)**	(154,448)	(127,511)	(56,597)	(4,505)
	98,222	177,769	216,828	83,178	3,705
Other income and gains	**15,695**	23,632	19,905	4,298	210
Selling and distribution expenses	**(24,683)**	(34,861)	(27,541)	(24,500)	(7,953)
Administrative expenses	**(35,407)**	(42,715)	(43,018)	(45,564)	(12,257)
Other expenses	**(19,861)**	(6,586)	(8,259)	(593)	(855)
Finance cost	**(24,317)**	(16,606)	(13,698)	(4,501)	(2,254)
PROFIT/(LOSS) BEFORE TAX	**9,649**	100,633	144,217	12,318	(19,404)
Income tax expense	**(10,195)**	(25,226)	(41,885)	(12,720)	(17)
PROFIT/(LOSS) AND TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**(546)**	75,407	102,332	(402)	(19,421)
ATTRIBUTABLE TO:					
Owners of the Company	**(546)**	75,407	102,332	(402)	(19,421)
Non-controlling interests	**–**	–	–	–	–
	(546)	75,407	102,332	(402)	(19,421)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY:					
Basic and diluted (RMB cent per Share)	**0.00**	6.00	8.00	(0.04)	N/A

SUMMARY OF FINANCIAL INFORMATION

	As at 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	**1,701,978**	296,763	164,640	142,271	42,109
Current assets	**576,455**	1,189,027	1,174,974	970,656	238,413
Non-current liabilities	**26,032**	29,805	39,386	41,002	4,158
Current liabilities	**455,831**	410,361	333,003	210,865	292,319
Total equity/(deficit)	**1,796,570**	1,045,624	967,225	861,060	(15,955)
Non-controlling interests	**318,055**	–	–	–	–
Equity/(deficit) attributable to owners of the Company	**1,478,515**	1,045,624	967,225	861,060	(15,955)