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ARTGO HOLDINGS LIMITED

雅高控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 3313)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

RESULTS HIGHLIGHTS

For the year ended 31 December 2017:

- The revenue of the Group amounted to approximately RMB1,271.1 million (2016: approximately RMB1,059.5 million), representing an increase of approximately RMB211.6 million.
- The profit before tax of the Group amounted to approximately RMB16.5 million (2016: approximately RMB9.6 million), representing an increase of approximately RMB6.9 million.
- The Group's net profit amounted to approximately RMB7.8 million (2016: net loss of approximately RMB0.5 million).
- The basic and diluted earnings per share attributable to ordinary equity holders of the Company amounted to RMB0.4 cent (2016: basic and diluted loss per share of approximately RMB0.0 cent).

The board (the “**Board**”) of directors (the “**Directors**”) of ArtGo Holdings Limited (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2017. The Company's annual results for 2017 have been reviewed by the audit committee of the Company (the “**Audit Committee**”) and have been approved by the Board on 29 March 2018.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
REVENUE	3, 4	1,271,058	1,059,457
Cost of sales		<u>(1,195,094)</u>	<u>(961,235)</u>
Gross profit		75,964	98,222
Other income and gains	5	25,139	15,695
Selling and distribution expenses		(11,835)	(24,683)
Administrative expenses		(46,155)	(35,407)
Other expenses		(7,530)	(19,861)
Finance costs	6	(18,963)	(24,317)
Share of losses of associates		<u>(151)</u>	<u>–</u>
PROFIT BEFORE TAX	7	16,469	9,649
Income tax expense	8	<u>(8,660)</u>	<u>(10,195)</u>
PROFIT/(LOSS) AND TOTAL COMPREHENSIVE PROFIT/(LOSS) FOR THE YEAR		<u>7,809</u>	<u>(546)</u>
Profit/(loss) attributable to:			
Owners of the Company		8,450	(546)
Non-controlling interests		<u>(641)</u>	<u>–</u>
		<u>7,809</u>	<u>(546)</u>
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY:			
— Basic and diluted	10	<u>RMB0.004</u>	<u>RMB(0.000)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	<i>Notes</i>	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		130,599	60,866
Investment properties	<i>11</i>	94,334	98,401
Prepaid land lease payments		358,956	13,271
Intangible assets	<i>12</i>	1,010,669	1,022,719
Prepayments, deposits and other receivables		13,141	14,168
Goodwill		19,179	–
Investments in associates		375,399	–
Payments in advance	<i>13</i>	156,666	480,561
Deferred tax assets		9,737	9,537
Restricted deposits		2,560	2,455
Total non-current assets		2,171,240	1,701,978
CURRENT ASSETS			
Inventories	<i>14</i>	129,203	179,361
Trade receivables	<i>15</i>	433,109	23,159
Prepayments, deposits and other receivables	<i>16</i>	68,933	218,813
Pledged deposits	<i>17</i>	1,129	94,226
Cash and bank balances	<i>17</i>	29,356	60,896
Total current assets		661,730	576,455
CURRENT LIABILITIES			
Trade and bills payables	<i>18</i>	196,291	153,150
Other payables and accruals	<i>19</i>	111,428	80,363
Tax payables		30,970	24,636
Interest-bearing bank and other borrowings	<i>20</i>	174,403	197,682
Total current liabilities		513,092	455,831
NET CURRENT ASSETS		148,638	120,624
TOTAL ASSETS LESS CURRENT LIABILITIES		2,319,878	1,822,602

	<i>Notes</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	20	224,500	5,000
Deferred tax liabilities		12,226	2,229
Deferred income		5,270	5,480
Provision for rehabilitation		17,100	13,323
		<hr/>	<hr/>
Total non-current liabilities		259,096	26,032
		<hr/>	<hr/>
Net assets		2,060,782	1,796,570
		<hr/>	<hr/>
EQUITY			
Equity attributable to owners of the Company			
Issued capital	21	18,349	15,482
Reserves		1,725,019	1,463,033
		<hr/>	<hr/>
		1,743,368	1,478,515
Non-controlling interests		317,414	318,055
		<hr/>	<hr/>
Total equity		2,060,782	1,796,570
		<hr/>	<hr/>

NOTES:

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is P.O. Box 309, Uglund 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 Group was principally engaged in the business of mining, processing, trading and sales of marble stones, trading of commodities and cargo handling, waterhousing, and logistics.

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 Hong Kong, is in a position to exercise significant influence over the Company.

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"), International Accounting Standards ("IASs") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect and the disclosure requirements of the Hong Kong Companies Ordinance. 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.

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 IAS 7	<i>Disclosure Initiative</i>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Amendments to IFRS 12	<i>Disclosure of Interests in Other Entities: Clarification of the Scope of</i>
included in <i>Annual</i>	<i>IFRS 12</i>
<i>Improvements to IFRSs</i>	
<i>2014–2016 Cycle</i>	

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	<i>Classification and Measurement of Share-based Payment Transactions</i> ¹
Amendments to IFRS 4	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i> ¹
IFRS 9	<i>Financial Instruments</i> ¹
Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i> ²
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
IFRS 15	<i>Revenue from Contracts with Customers</i> ¹
Amendment to IFRS 15	<i>Clarifications to IFRS 15 Revenue from Contracts with Customers</i> ¹
IFRS 16	<i>Leases</i> ²
IFRS 17	<i>Insurance Contracts</i> ³
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i> ²
Amendments to IAS 40	<i>Transfers of Investment Property</i> ¹
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration</i> ¹
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i> ²
<i>Annual Improvements 2014–2016 Cycle</i>	Amendments to IFRS 1 and IAS 28 ¹
<i>Annual Improvements 2015–2017 Cycle</i>	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 ²

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after 1 January 2021

⁴ No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below. Of those standards, IFRS 9 and IFRS 15 will be applicable for the Group's financial year ending 31 December 2018 and are expected to have no significant impact upon adoption. Whilst management has performed an assessment of the estimated impacts of these standards, that assessment is based on the information currently available to the Group. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards.

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 will adopt IFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (*Continued*)

IFRS 15, issued in May 2014, 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. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In April 2016, the IASB issued amendments of 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 plans to adopt the transitional provisions in IFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group's principal activities consist of the sale of marble stones, trading of commodities and warehouse logistics services. During 2017, the Group has performed a detailed assessment on the impact of the adoption of IFRS 15 and concluded that no material financial impact exists. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of IFRS 15 will not be material. Also, the expected changes in accounting policies will not have a material impact on the Group's financial statements from 2018 onwards.

IFRS 16, issued in January 2016, 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. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt IFRS 16 from 1 January 2019. The Group is currently assessing the impact of IFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three (2016: two) 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; and
- (c) the warehousing logistics segment engaged in the business of cargo handling, warehousing, and logistics.

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.

3. OPERATING SEGMENT INFORMATION (Continued)

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.

Year ended 31 December 2017

	Marble products RMB'000	Commodity trading RMB'000	Logistics service RMB'000	Total RMB'000
SEGMENT REVENUE	150,477	1,119,648	933	1,271,058
Segment results	20,889	5,276	70	26,235
<i>Reconciliation:</i>				
Interest income				514
Foreign exchange gain, net				8,894
Financial costs				(18,963)
Corporate and other unallocated expenses				(211)
Profit before tax				<u>16,469</u>
Segment assets	2,138,867	412,356	112,311	2,663,534
<i>Reconciliation:</i>				
Deferred tax assets				9,737
Pledged deposits				1,129
Cash and cash equivalents				29,356
Corporate and other unallocated assets				<u>129,214</u>
Total assets				<u>2,832,970</u>
Segment liabilities	696,571	31,108	1,313	728,992
<i>Reconciliation:</i>				
Tax payable				30,970
Deferred tax liabilities				<u>12,226</u>
Total liabilities				<u>772,188</u>

OTHER SEGMENT INFORMATION

Impairment losses recognised in the statement of profit or loss	478	–	–	478
Share of losses of associates	151	–	–	151
Investments in associates	375,399	–	–	375,399
Depreciation and amortisation	27,867	–	589	28,456
Capital expenditure*	<u>324,541</u>	<u>–</u>	<u>115,568</u>	<u>440,109</u>

* Capital expenditure consists of additions to property, plant and equipment and prepaid land lease payment including assets from the acquisition of a subsidiary.

3. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2016

	Marble products <i>RMB'000</i>	Commodity trading <i>RMB'000</i>	Total <i>RMB'000</i>
SEGMENT REVENUE	117,200	942,257	1,059,457
Segment results	25,604	12,410	38,014
<i>Reconciliation:</i>			
Interest income			9,346
Foreign currency losses, net			(3,652)
Financial costs			(24,317)
Corporate and other unallocated expenses			(9,742)
Profit before tax			<u>9,649</u>
Segment assets	2,010,427	2,491	2,012,918
<i>Reconciliation:</i>			
Deferred tax assets			9,537
Pledged deposits			94,226
Cash and cash equivalents			60,896
Corporate and other unallocated assets			<u>100,856</u>
Total assets			<u>2,278,433</u>
Segment liabilities	452,796	2,202	454,998
<i>Reconciliation:</i>			
Tax payable			24,636
Deferred tax liabilities			<u>2,229</u>
Total liabilities			<u>481,863</u>
OTHER SEGMENT INFORMATION			
Impairment losses recognised in the statement of profit or loss	5,099	–	5,099
Depreciation and amortisation	13,986	–	13,986
Capital expenditure	<u>945,565</u>	<u>–</u>	<u>945,565</u>

3. 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 customers are determined based on the locations at which the goods were delivered.

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Domestic*:		
Mainland China	1,262,210	1,044,790
Overseas	8,848	14,667
	<u>1,271,058</u>	<u>1,059,457</u>

* Place of domicile of the Group's principal subsidiaries is Mainland China.

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:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Customer A	*	465,103
Customer B	*	172,650
Customer C	186,418	*
Customer D	180,222	*
Customer E	159,777	*

* Less than 10% of the total revenue

4. REVENUE

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

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:

	2017 RMB'000	%	2016 RMB'000	%
One-side-polished slabs	83,797	7	31,750	3
Cut-to-size slabs	15,115	1	27,645	3
Marble blocks	51,565	4	57,805	5
Logistics	933	–	–	–
Commodity trading	1,119,648	88	942,257	89
	<u>1,271,058</u>	<u>100</u>	<u>1,059,457</u>	<u>100</u>

5. OTHER INCOME AND GAINS

An analysis of other income and gains is as follows:

	2017 RMB'000	2016 RMB'000
Foreign exchange gain, net	8,894	–
Rental income	7,662	3,709
Labour outsourcing service income	4,487	–
Compensation for breach of contract	3,232	1,969
Bank interest income	514	9,346
Deferred income released to profit or loss	210	210
Government grants*	10	246
Miscellaneous	130	215
	<u>25,139</u>	<u>15,695</u>
Total other income and gains	<u>25,139</u>	<u>15,695</u>

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

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Interest on bank loans	11,575	10,549
Interest on other borrowings	6,182	–
Unwinding of a discount for rehabilitation	1,041	830
Interest on bills receivable discounted (<i>note 15</i>)	165	11,924
Interest on payables relating to the purchase of mining rights	–	1,014
	<u>18,963</u>	<u>24,317</u>

7. PROFIT BEFORE TAX

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

	<i>Notes</i>	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Cost of inventories sold		1,195,094	961,235
Employee benefit expense:			
Wages and salaries		24,239	23,977
Equity-settled share option expense	22	142	(4,420)
Welfare and other benefits		828	921
Pension scheme contributions			
— Defined contribution fund		1,359	1,304
Housing fund			
— Defined contribution fund		914	1,408
Total employee benefit expense		<u>27,482</u>	<u>23,190</u>
Depreciation of items of property, plant and equipment		10,518	9,946
Depreciation of investment properties	11	4,067	3,389
Amortisation of prepaid land lease payments		1,821	266
Amortisation of intangible assets	12	12,050	385
Depreciation and amortisation expenses		<u>28,456</u>	<u>13,986</u>
Minimum lease payments under operating leases:			
— Office		7,215	6,715
— Warehouses		842	4,307
— Parcels of land located at Shangsheng Village	16(a)	819	819
Auditors' remuneration		2,900	2,700
Foreign exchange loss/(gain), net		(8,894)	3,652
Impairment of trade receivables	15	478	5,099
Loss on disposal and write-off of items of property, plant and equipment		–	4,041
Rental income	5	(7,662)	(3,709)
Bank interest income	5	<u>(514)</u>	<u>(9,346)</u>

8. 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 to 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:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Current — Mainland China		
Charge for the year	8,903	12,104
Deferred	(243)	(1,909)
	<u>8,660</u>	<u>10,195</u>

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:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Profit before tax	<u>16,469</u>	<u>9,649</u>
Tax at the respective statutory tax rates:		
— Mainland China subsidiaries, at 25%	4,740	3,700
— Hong Kong subsidiary, at 16.5%	(411)	(849)
Non-deductible expenses	3,196	5,918
Loss/(income) not subject to tax	406	(2,467)
Tax losses not recognised	<u>729</u>	<u>3,893</u>
Income tax expense	<u>8,660</u>	<u>10,195</u>

9. DIVIDENDS

At a meeting of the board of directors held on 29 March 2018, the directors resolved not to declare any dividend to shareholders for the year ended 31 December 2017 (2016: Nil).

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

The calculation of basic earnings/(loss) per share for the year ended 31 December 2017 is based on the profit (2016: loss) for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 2,014,386,386 (2016: 1,537,372,251) in issue during the year.

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the years ended 31 December 2017 and 2016 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.

11. INVESTMENT PROPERTIES

	2017 RMB'000	2016 RMB'000
Carrying amount at 1 January	98,401	–
Acquisition of a subsidiary	–	101,790
Depreciation provided for the year (note 7)	(4,067)	(3,389)
Carrying amount at 31 December	<u>94,334</u>	<u>98,401</u>

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 2017, the fair value of the investment properties was estimated to be approximately RMB103,430,000 (2016: RMB102,930,000). 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*.

12. INTANGIBLE ASSETS

	Mining rights RMB'000	Software RMB'000	Total RMB'000
31 December 2017			
Cost at 1 January 2017, net of accumulated amortisation	1,021,208	1,511	1,022,719
Amortisation provided during the year (note 7)	(11,840)	(210)	(12,050)
At 31 December 2017	<u>1,009,368</u>	<u>1,301</u>	<u>1,010,669</u>
Analysed as:			
Cost	1,026,703	2,006	1,028,709
Accumulated amortisation	(17,335)	(705)	(18,040)
Net carrying amount	<u>1,009,368</u>	<u>1,301</u>	<u>1,010,669</u>
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	828,939	–	828,939
Amortisation provided during the year (note 7)	(170)	(215)	(385)
At 31 December 2016	<u>1,021,208</u>	<u>1,511</u>	<u>1,022,719</u>
Analysed as:			
Cost	1,026,703	2,006	1,028,709
Accumulated amortisation	(5,495)	(495)	(5,990)
Net carrying amount	<u>1,021,208</u>	<u>1,511</u>	<u>1,022,719</u>

12. INTANGIBLE ASSETS (Continued)

As at 31 December 2017, the Group's mining rights of Zhangxi and Lingnan Mines with a carrying amount of RMB116,627,000 (2016: RMB116,627,000) was pledged as security for certain bank loans granted to the Group (note 20(a)).

13. PAYMENTS IN ADVANCE

	Notes	2017 RMB'000	2016 RMB'000
In respect of the purchase of:			
Property, plant and equipment	(a)	156,666	308,149
Land use rights	(b)	—	172,412
		<u>156,666</u>	<u>480,561</u>

(a) The balance mainly represented prepayment of RMB154,231,000 paid to an independent third party for the construction of marble processing plant.

(b) The balance as at 31 December 2016 mainly represented prepayment paid to Xuyi Bureau of Land and Resources for acquiring three parcels of land use rights. The Group has obtained the land use right in November 2017, accordingly the prepayment has been transferred to prepaid land lease payments.

14. INVENTORIES

	2017 RMB'000	2016 RMB'000
Finished goods	107,409	59,536
Work in progress	21,182	119,292
Materials and supplies	612	533
	<u>129,203</u>	<u>179,361</u>

15. TRADE RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables	444,168	33,740
Impairment	(11,059)	(10,581)
	<u>433,109</u>	<u>23,159</u>

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:

	2017 RMB'000	2016 RMB'000
Within 1 month	213,571	7,702
1 to 3 months	211,382	6,145
3 to 6 months	3,711	5,479
6 to 12 months	1,189	1,717
Over 1 year	3,256	2,116
	<u>433,109</u>	<u>23,159</u>

15. TRADE RECEIVABLES (Continued)

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

	2017 RMB'000	2016 <i>RMB'000</i>
At beginning of year	10,581	5,482
Impairment losses recognised (<i>note 7</i>)	478	5,099
	11,059	10,581

As at 31 December 2017, trade receivables contained retention money receivables of RMB4,651,000 (2016: RMB6,833,000).

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.

Impairment of trade receivables recognised during the year ended 31 December 2017 represented a provision for individually impaired trade receivables of RMB478,000 (2016: RMB5,099,000). The individually impaired trade receivables which are fully provided related to certain customers that were in financial difficulties. The Group had stopped supplying goods to these customers, initiated discussions on repayment terms with them 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 fluctuating market condition, may be delayed for a longer-than-expected period or part of the receivables may not be recoverable. 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:

	2017 RMB'000	2016 <i>RMB'000</i>
Neither past due nor impaired	424,574	17,966
Past due but not impaired		
Less than 1 month past due	2,030	810
Over 1 month and less than 3 months past due	1,310	1,169
Over 3 months past due	5,195	3,214
	433,109	23,159

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.

15. TRADE RECEIVABLES (Continued)

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 2017, 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 RMB2,314,000 (2016: RMB407,286,000).

During the year, the Group has recognised interest expense of RMB165,000 (2016: RMB11,924,000) (*note 6*) on discounted bills.

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	2017 RMB'000	2016 RMB'000
Current portion:			
Prepayments in respect of:			
— Processing fee		4,864	2,928
— Office rental		—	68
— Warehouse rental		1,625	1,625
— Lease of parcels of land located at Shangsheng Village	(a)	819	819
— Prepaid land lease payments to be amortised within one year		8,939	266
— Purchase of materials and supplies		1,890	202
— Purchase of marble blocks and slabs		23,180	55,969
— Service fee		936	696
— Other		—	76
Deposits		5,614	6,291
Refundable deposits for acquisition of an associate	(b)	—	50,000
Deductible input value-added tax		9,121	827
Receivables from labour outsourcing service		4,756	—
Performance security		3,000	—
Due from a shareholder	(c)	—	94,853
Other receivables		4,189	4,193
		68,933	218,813
Non-current portion:			
Prepayments in respect of			
— Lease of parcels of land located at Shangsheng Village	(a)	7,869	8,688
— Cultivated land used tax	(d)	5,272	5,480
		13,141	14,168

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.

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (*Continued*)

- (b) The balance represents a refundable deposit made for a proposed 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 refunded during 2017.
- (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 in 2017.
- (d) The balance represents prepayments made to local authorities for occupation of cultivated land at Yongfeng Mine. The prepayments will be charged to profit or loss on a straight-line method over the terms of the mining right.

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

	2017 <i>RMB’000</i>	2016 <i>RMB’000</i>
Cash on hand and cash at banks	29,356	63,351
Time deposits with original maturity of:		
— over three months	3,689	94,226
	33,045	157,577
Less:		
Restricted deposits for environmental rehabilitation deposits	(2,560)	(2,455)
Pledged deposits for:		
— bills payable	—	(92,826)
— interest-bearing bank loans (<i>note 20(a)</i>)	(1,129)	(1,400)
	29,356	60,896

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

	2017 <i>RMB’000</i>	2016 <i>RMB’000</i>
RMB	32,258	136,953
HK\$	620	20,465
US\$	167	159
	33,045	157,577

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.

18. TRADE AND BILLS PAYABLES

	2017 RMB'000	2016 RMB'000
Trade payables	64,134	10,350
Bills payables	132,157	142,800
	<u>196,291</u>	<u>153,150</u>

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:

	2017 RMB'000	2016 RMB'000
Within 1 month	106,957	73,377
1 to 2 months	436	1,538
2 to 3 months	961	544
Over 3 months	87,937	77,691
	<u>196,291</u>	<u>153,150</u>

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

19. OTHER PAYABLES AND ACCRUALS

	Notes	2017 RMB'000	2016 RMB'000
<i>Current portion:</i>			
Advances from customers		8,459	6,059
Payables relating to:			
Taxes other than income tax		25,796	7,226
Purchase of mining rights	(a)	18,600	18,600
Payroll and welfare		12,922	10,704
Professional fees		10,887	6,638
Purchase of property, plant and equipment	(b)	9,587	10,750
Mineral resources compensation fees		4,869	5,501
Due to a shareholder	(c)	2,898	–
Rental fees		2,263	2,410
Security deposit		1,886	1,886
Distributors' earnest money		1,805	1,920
Land occupation fee		380	936
Employee reimbursement		288	526
Advertisement fees		191	449
Purchase of software		–	585
Interest payables relating to:			
Bank loans		1,857	398
Purchase of mining rights	(a)	3,707	3,707
Others		5,033	2,068
		<u>111,428</u>	<u>80,363</u>

19. OTHER PAYABLES AND ACCRUALS (Continued)

Notes:

- (a) The balances represent payables in connection with the purchase of mining rights to 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.
- (b) The balances represent payables in connection with the construction of a mining road and a processing plant located in Jiangxi.
- (c) The balance represented the interest-free loan granted by the shareholder Ms. Wu Jing in support of the Group's development. The borrowing is unsecured and has no fixed repayment term.

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

20. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	2017 RMB'000	2016 RMB'000
Bank loans:			
Secured and guaranteed	(a)	54,952	56,000
Secured	(a)	92,390	54,890
Guaranteed	(b)	4,188	7,492
Unsecured		—	50,000
		<u>151,530</u>	<u>168,382</u>
Effective interest rate per annum (%)		<u>5.66–7.13</u>	<u>5.66–7.00</u>
Other borrowings:			
Secured and guaranteed	(a)	<u>247,373</u>	<u>34,300</u>
Effective interest rate per annum (%)		<u>6.52–9.00</u>	<u>6.53</u>
Analysed into:			
Bank loans repayable:			
Within one year		147,030	163,382
In the second year		—	5,000
In the third to fifth years, inclusive		<u>4,500</u>	<u>—</u>
		<u>151,530</u>	<u>168,382</u>
Other borrowings repayable:			
Within one year		27,373	34,300
In the second year		50,000	—
In the third to fifth years, inclusive		<u>170,000</u>	<u>—</u>
		<u>247,373</u>	<u>34,300</u>
Total bank and other borrowings		398,903	202,682
Portion classified as current liabilities		<u>(174,403)</u>	<u>(197,682)</u>
Non-current portion		<u>224,500</u>	<u>5,000</u>

20. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

- (a) The Group's bank loans and other borrowings of approximately RMB394,715,000 as at 31 December 2017 (2016: RMB145,190,000) were secured by certain assets with net carrying values as follows:

	Notes	2017 RMB'000	2016 RMB'000
<i>Secured by:</i>			
Property, plant and equipment		14,359	–
Prepaid land lease payments		306,104	13,537
Mining rights to Zhangxi and Lingnan mines	12	116,627	116,627
Time deposits	17	1,129	1,400
		<u>438,219</u>	<u>131,564</u>

The Group's secured bank loans and other borrowings of approximately RMB302,325,000 as at 31 December 2017 (31 December 2016: RMB90,300,000) 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 RMB4,188,000 as at 31 December 2017 (31 December 2016: RMB7,492,000) were guaranteed by an independent third party, Xiamen Siming Technique Financial Guarantee Co., Ltd, with a guarantee charge of RMB80,000.

21. SHARE CAPITAL

Shares

	2017 RMB'000	2016 RMB'000
<i>Authorised:</i>		
3,000,000,000 ordinary shares of HK\$0.01 each (2016: 3,000,000,000 ordinary shares of HK\$0.01 each)	<u>23,651</u>	<u>23,651</u>
<i>Issued and fully paid:</i>		
2,246,374,885 ordinary shares of HK\$0.01 each (2016: 1,911,334,000 ordinary shares of HK\$0.01 each)	<u>18,349</u>	<u>15,482</u>

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 2017	1,911,334,000	15,482
Issue of new ordinary shares	159,300,000	1,375
Issue of new shares for acquisition of subsidiaries	<u>175,740,885</u>	<u>1,492</u>
As at 31 December 2017	<u>2,246,374,885</u>	<u>18,349</u>

21. SHARE CAPITAL (Continued)

Notes: On 3 July 2017, the Group entered into a placing agreement with a placing agent for placing of new shares. An aggregate of 159,300,000 new ordinary shares was placed to not less than six independent placees at the placing price of HK\$1.00 per share. The net proceeds from the placing, after deduction of the placing fee of 1.5% on gross proceeds, was approximately HK\$156,910,000 (equivalent to approximately RMB135,470,000). The placing was completed on 24 July 2017.

On 23 October 2017, the Company allotted and issued an aggregate of 175,740,885 new ordinary shares of the Company as the consideration for the acquisition of the entire interest in Shiny Goal Holdings Limited (“Shiny Goal”). The aggregate fair value of the 175,740,885 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 RMB120,791,000, of which RMB1,492,000 and RMB119,299,000 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 8 September 2017.

22. 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:

	<i>Notes</i>	Exercise price HK\$ per share	Number of options
As at 1 January 2017	(a)	2.39	2,133,336
Expired during the year	(b)	2.39	(1,066,667)
As at 31 December 2017			<u>1,066,669</u>

Notes:

- (a) The share options outstanding as at 1 January 2017 represented share options granted by the Company on 30 December 2013 at the exercise price of HK\$2.39 per share.
- (b) The third batch of 1,066,667 share options expired without being exercised on 1 July 2017.

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

2017:

Number of options	Exercise price HK\$ per share	Exercise period
<u>1,066,669</u>	2.39	From 30 June 2017 to 30 June 2018

22. SHARE OPTION SCHEMES (Continued)

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
<u>2,133,336</u>		

The Group had 1,066,669 share options exercisable as at 31 December 2017 (2016: 2,133,336). The Group recognised a share option expense of HK\$180,000 (equivalent to approximately RMB142,000) during the year ended 31 December 2017 (a share option expense reversed in 2016: HK\$5,618,000, equivalent to approximately RMB4,420,000).

At the end of the reporting period, the Company had 1,066,669 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 1,066,669 additional ordinary shares of the Company and additional share capital of HK\$10,667 and share premium of HK\$2,539,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 1,066,669 share options outstanding under the Pre-IPO Share Option Scheme, which represented approximately 0.05% of the Company's shares in issue as at that date.

23. BUSINESS COMBINATION

On 23 October 2017, the Group acquired a 100% interest in Shiny Goal from Mr. Liu Xunyan, an independent individual and the owner of Shiny Goal. Shiny Goal indirectly owns 100% equity interests in 江蘇泰豐物流有限公司, which is principally engaged in the business of cargo handling, warehousing, logistics and sale of mineral products. The acquisition was made as part of the Group's strategy to expand its business portfolio, diversify its income source and possibly enhance its financial performance. The purchase consideration for the acquisition was satisfied by the allotment and issuance of 175,740,885 consideration shares by the Company. The acquisition has been completed on 23 October 2017.

Particulars of the acquisition of the entire equity interests in Shiny Goal were set out in the Company's announcements dated 8 September 2017.

23. BUSINESS COMBINATION (Continued)

The fair values of the identifiable assets and liabilities of Shiny Goal as at the date of acquisition were as follows:

	Fair value recognised on acquisition <i>RMB'000</i>
Cash and bank balances	69
Trade receivables	648
Other receivables	27
Property, plant and equipment	47,489
Prepaid land lease payments	64,400
Other payables and accruals	(957)
Tax payables	(24)
Deferred tax liability	(10,040)
	<hr/>
Total identifiable net assets at fair value	101,612
Goodwill on acquisition	19,179
	<hr/>
Satisfied by shares	120,791
	<hr/> <hr/>

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

	Fair value recognised on acquisition <i>RMB'000</i>
Total cash consideration	–
Less: cash and cash equivalents acquired	69
	<hr/>
Net cash inflow from the acquisition of a subsidiary	69
	<hr/> <hr/>

Since the acquisition, Shiny Goal contributed RMB933,000 to the Group's revenue and recorded RMB70,000 profit in the consolidated results for the year ended 31 December 2017.

Had the combination taken place at the beginning of the year, the revenue and the profit of the Group for the year ended 31 December 2017 would have been increased by RMB8,533,000 and RMB964,000, respectively.

23. BUSINESS COMBINATION (Continued)

Acquisition of subsidiaries in 2016:

(a) Acquisition of Shanghai Yunyi

On 18 March 2016, the Group acquired 100% equity interests in Shanghai Yunyi Enterprise Management Co., Ltd. (“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, 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 Limited (“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 Limited (“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, 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.

23. BUSINESS COMBINATION (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 <i>RMB'000</i>	Chancellor Group <i>RMB'000</i>	Evoke Group <i>RMB'000</i>	Total <i>RMB'000</i>
2016				
Property, plant and equipment	–	431	–	431
Investment properties (<i>note 11</i>)	101,790	–	–	101,790
Prepaid land lease payments	–	–	1,035	1,035
Mining rights (<i>note 12</i>)	–	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)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
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
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	101,790	240,000	268,586	610,376
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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

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

24. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2017 RMB'000	2016 <i>RMB'000</i>
Contracted, but not provided for:		
— Plant and equipment	129,079	165,614
— Land use rights	<u>—</u>	<u>32,787</u>
	<u>129,079</u>	<u>198,401</u>

25. EVENT AFTER THE REPORTING PERIOD

- (a) On 4 January 2018, the board of directors had resolved to grant share options to Ms Wu Jing, Mr. Leung Ka Kit and Mr. Gu Weiwen and certain individuals to subscribe for a total of 133,333,400 ordinary shares of HK\$0.01 each in the share capital of the Company, subject to acceptance of the grantees, under the share option scheme adopted by the Company on 9 December 2013, and the payment of HK\$1.00 by each of the grantees upon acceptance of the options.
- (b) On 30 January 2018, the Company entered into the subscription agreement with the subscriber pursuant to which the Company has conditionally agreed to allot and issue and the subscriber has conditionally agreed to subscribe for 47,000,000 subscription shares at the subscription price of HK\$0.776 per subscription share. The subscription was completed on 14 February 2018, with a net proceeds from the subscription of HK\$36.4 million (equivalent to approximately RMB29.4 million).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Marble and Mining Business

During the year, the Group continued in developing the operating mining areas in Yongfeng Mine which remain the largest mine in the Group. Products produced from this mine are white and grey colored limestone which gained their popularity over years. To widen its product range, the Group introduced other colored limestone to its product list this year. The Group acquired the Guiguan Mine late last year and also the 49% interest in Shangri-La Mine during the year. Since then, stone products from Guiguan Mine and the Shangri-La Mine, which are mainly products with white strip in black marble, namely Black Marquina and golden colored marble, namely Golden Shangri-La joined the Group's product lineup. As a consequence, extraction process also started to regain its momentum in the year. A total of nearly 26,000 cubic meters of marble blocks were excavated in the year as compared to less than 10,000 cubic meters of marble blocks in 2016. With other mines owned by the Group started to produce marble blocks in the near future, the Group believed that momentum of excavation activity will be continued. Sales of marble products in the year experienced an encouraging 20% growth in monetary amount over the previous year. With the increasing income level and spending power in the PRC, consumers started for pursuit of higher living standard. Natural stone become a popular choice of decoration materials especially in the high-end residential market segment as well as the commercial buildings. As such, the Group remains confident of the marble and mining business. Through the owning of different mines which can produce a variety of pattern and colored stone, the Group believes it has a better competitive niche in the stone market.

As at the date of this report, the Group has a network of 138 distributors, covering 77 cities across 28 provinces and autonomous regions in the PRC. The Group will continue to seek marble resources in order to meet the demand from a variety of customers with different preference of pattern and colors of stone products.

Commodities Trading Business

The Group commenced the trading of commodities since 2016 which laid a foundation for the Group's plan of the development of modern logistics business as well as the supply chain finance business. The revenue generated from this business segment in the year amounted to approximately RMB1,120 million representing an increase of approximately 19% from previous year.

Logistics Services Business

In late 2017, the Group acquired the entire equity interest in Shiny Goal Holdings Limited which indirectly owns 江蘇泰豐物流有限公司 ("Jiangsu Taifeng"). Jiangsu Taifeng is principally engaged in the business of cargo handling, warehousing, and logistics, and sale of mineral products. It owns a single-storey warehouse and a 5-storey ancillary office with a total gross floor area of over 8,000 square metres plus various ancillary structures built on five parcels of logistics land with a total site area of nearly 250,000 square metres, located in Dafeng City, Yancheng, Jiangsu Province, the PRC. It was also granted the license for

operating a public bonded warehouse (公共保税倉). Although the logistics services business is yet to contribute significantly to the Group's results during the year, the acquisition is part of the Group's overall strategic plan for the development of modern logistics business. It is the milestone of the Group to tap on the logistics service business.

Corporate Development

On 29 January 2018, the Group entered into a non-legally binding memorandum of understanding with an independent third party for the acquisition of a group of companies engaged in the trading of marble and granite materials and products and provision of construction services including marble stone installation services with principle operations in Hong Kong. The acquisition, if crystalized, enables the Group to further expand the its existing business segment by widening the spectrum from stone mining to the construction end including but not limited to marble and granite installation services to end users. In addition, the Group can also capitalized on the business connection and experiences in international trading possessed by the target group to enhance the Group's existing international trade operations. At the date of this report, the Group is still performing the due diligent review of the target companies and no definitive agreement has been entered into.

FINANCIAL REVIEW

REVENUE

In 2017, the Group recorded an operating revenue of approximately RMB1,271.1 million (2016: RMB1,059.5 million), representing an increase of approximately RMB211.6 million (or 20%) compared to that of 2016, the increase was mainly due to: (i) the growth in the Group's trading of chemicals commodities, which recorded sales amount of RMB1,119.6 million, representing an increase of RMB177.4 million; (ii) Guiguan Stone effectively expanded southwestern market of the PRC and generated revenue of marble products amounted to RMB47.8 million; and (iii) the continued growth of commodities trading activities.

(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:

	2017			2016		
	Approximate	Gross profit		Approximate	Gross profit	
	percentage	margin		percentage	margin	
	RMB'000	%		RMB'000	%	
Marble blocks	51,565	4.1	77.0	57,805	5.5	80.9
One-side-polished slabs	83,797	6.6	23.1	31,750	3.0	45.4
Cut-to-size slabs	15,115	1.2	22.1	27,645	2.6	35.1
Logistics service	933	–	7.5	–	–	–
Chemical commodities	1,119,648	88.1	1.2	942,257	88.9	2.9
Total	<u>1,271,058</u>	<u>100.0</u>	<u>6.0</u>	<u>1,059,457</u>	<u>100.0</u>	<u>9.3</u>

(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, cut-to-size slabs and commodities:

Sales volume	2017	2016
Marble blocks (m ³)	14,044	13,191
One-side-polished slabs (m ²)	648,825	148,741
Cut-to-size slabs (m ²)	50,520	106,408
Trading of chemicals (Ton)	134,885	201,917
Trading of marble blocks (m ³)	172,988	–
Average selling price		
Marble blocks (RMB/m ³)	3,672	4,382
One-side-polished slabs (RMB/m ²)	129	213
Cut-to-size slabs (RMB/m ²)	299	260

For the year ended 31 December 2017, the unit selling price of marble blocks decreased by approximately 16.2% as compared to that of 2016, mainly due to: (1) the change of product mix with product having a relatively lower average unit price such as white-stripe-in-black blocks, the sales of which accounted for approximately 17.2% of the total sales of marble blocks; and (2) extra discounts were given to certain large customers with aggregate sales volume amounted to 9,004.9m³, 64.1% of the total sales volume.

Guiguan Stone started the production of white-stripe-in-black slabs from July 2017 and generates 51.2% of total domestic revenue, however the average unit price of white-stripe-in-black slabs is around RMB80/m² due to its characteristic and color, one of the key factors on the selling price of marble products, which was lower than the unit price of slabs mined from Yongfeng Mine, ranging from RMB180/m² to RMB400/m², accordingly the average selling price decreased from RMB213/m² in 2016 to RMB129/m² in 2017.

Unit selling price of cut-to-size slabs increased from RMB260/m² in 2016 to RMB299/m² in 2017, representing an increase of 15% compared with that of 2016. During the year, an customer purchased specially customized slabs from the Group, which need complex processing flow, accordingly resulting in the much higher overall average selling price of cut-to-size slabs in overseas sales.

COST OF SALES

For the year ended 31 December 2017, the Group's cost of sales amounted to approximately RMB1,195.1 million, which included processing costs; marble blocks mining costs; transportation costs; and the purchase costs for commodities trading. To diversify the existing business of and to explore new markets with significant growth potential, the Group continued its commodities trading in 2017.

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 of one-side-polished slabs increased by RMB6.3 million, representing an increase of 74.2%, which is mainly due to the increased sales volume of one-side-polished slabs. The processing fees of cut-to-size slabs sharply decreased by RMB1.5 million, which is in line with decreased processing volume.

Marble blocks mining costs

In 2017, 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 decreased nearly by 31.0% compared to that of 2016, mainly due to (1) the significant reduction in labor costs; and (2) the increase in volume of marble blocks excavated, which resulted in a substantial decrease in the fixed costs per unit product.

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 0.1% and 0.3% of the production costs for 2017 and 2016, respectively.

GROSS PROFIT AND GROSS PROFIT MARGIN

During 2017, the Group realized a gross profit amounted to approximately RMB76.0 million, decreased by approximately RMB22.3 million as compared to that of 2016. The gross profit margin in 2017 was approximately 6.0%, while the gross profit margin in 2016 was approximately 9.3%. Nearly 88% sales were generated from commodity trading in 2017 with gross profit margin of 1.2%, which drove down the average margin of the Group.

OTHER INCOME AND GAINS

Other income and gains mainly included foreign exchange gain, interest income from bank deposits, rental income derived from five commercial units of Shanghai Yunyi. During the year, foreign exchange gain amounted to RMB8.9 million, interest income amounted to approximately RMB0.5 million and rental income amounted to RMB7.7 million.

OTHER EXPENSES

Other expenses mainly included purchase price allocation derived from five commercial units of Shanghai Yunyi and penalty. In 2017, such expenses amounted to approximately RMB5.2 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 RMB12.9 million, from approximately RMB24.7 million for the year ended 31 December 2016 to approximately RMB11.8 million for the year, which was due to the cost control measures implemented during the years.

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 increased by RMB10.8 million, from approximately RMB35.4 million for the year ended 31 December 2016 to approximately RMB46.2 million for the year. The increase in administrative expenses was mainly due to the increase in rental expenses and depreciation cost.

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 2017 amounted to RMB19.0 million and decreased by approximately RMB5.3 million as compared to that of 2016. The decrease was mainly attributable to the decrease in interests on 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.

HUMAN RESOURCES AND REMUNERATION POLICY *(Continued)*

As at 31 December 2017, the total number of full-time employees of the Group was 145 (31 December 2016: 288). Employee costs (including the Directors' remunerations) totally amounted to approximately RMB27.5 million for 2017 (2016: approximately RMB23.2 million). During the year, as part of the cost control measures, the Group streamlined its corporate structure in different subsidiaries resulting from a reduction in the overall headcounts. Accordingly, the corresponding redundancy payment was increased in the year. Meanwhile, 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 an increase in 2017. 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, Yancheng, Guanyang 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 2017, the contributions of approximately RMB1.4 million (2016: approximately RMB1.3 million) were charged to the profit and loss account as they became payable in accordance with the rules of the central pension scheme.

INCOME TAX EXPENSE

Income tax expense decreased by RMB1.5 million from approximately RMB10.2 million for the year ended 31 December 2016 to approximately RMB8.7 million for the year. The decrease was mainly due to the decrease in taxable profits generated by the Group's subsidiaries in Mainland China.

PROFITS AND TOTAL COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY

The net profit attributable to owners of the Company during the year amounted to approximately RMB8.5 million, compared to net loss which amounted to RMB0.5 million for the year ended 31 December 2016. The increased net profits were attributable to the savings in selling and distribution expenses, other expenses and finance cost respectively.

INVENTORIES AND TURNOVER DAYS

The Group's inventories decreased by approximately 28%, from approximately RMB179.4 million as at 31 December 2016 to approximately RMB129.2 million as at 31 December 2017. It was primarily due to good performance in sales during the year. The inventory turnover days of the Group decreased from 47 to 46 in 2017. 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 increased from approximately RMB23.2 million as at 31 December 2016 to approximately RMB433.1 million as at 31 December 2017. The increase was mainly due to the expansion of trading business and a slow trade receivable turnover of trading of commodity. The turnover days of trade receivable increased from 15 to 76 in 2017. The increase in trade receivables turnover days was primarily owing to the tightening of financial market conditions, the financial difficulties experienced by downstream enterprises were aggravated and hence the payment to their suppliers was decelerated. Therefore, the Group's certain distributor customers delayed repayment to the Group accordingly as their respective operating cash inflow from the downstream entities was decelerated.

TRADE AND BILLS PAYABLES

The Group's trade and bills payables increased by approximately RMB43.1 million as compared to about RMB153.2 million as at 31 December 2016 and reached approximately RMB196.3 million as at 31 December 2017. The increase was primarily due to the increase in procurement of materials from third parties.

NET CURRENT ASSETS

Net current assets of the Group increased from approximately RMB120.6 million as at 31 December 2016 by 23% to approximately RMB148.6 million as at 31 December 2017, which was primarily due to increase in trade receivables with the increase in sales of trading of commodity.

CURRENT RATIO

The current ratio, being current assets over current liabilities, was 1.3 as at 31 December 2017 (31 December 2016: 1.3), which remained stable.

BORROWINGS

The Group generally finances its operations with internally generated cash flows and banking credit facilities. As at 31 December 2017, the Group had total bank loans and other borrowings of RMB398.9 million (31 December 2016: RMB202.7 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 2017, the gearing ratio was 17.7% (2016: 2.5%).

CAPITAL EXPENDITURE

The Group's ability to maintain and increase its sales and profits depends upon continued capital spending. Capital expenditures are used to purchase mining rights, land, property, plant and equipment. In 2017, the Group's expenditure for: (i) purchase of property, plant and equipment aggregated to approximately RMB32.8 million; (ii) acquisition of Shiny Goal Holdings Ltd. and its subsidiaries ("Shiny Group") 31 aggregated to approximately RMB115.6 million; and (iii) for the prepaid land lease payments for acquiring four parcels of land use rights in Xuyi and a parcel of land use right in Guiguan amounted to RMB291.7 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 Board of Directors (the "Board") 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 2017, the property, plant and equipment amounted to RMB14.4 million, the prepaid land lease payment amounted to approximately RMB306.1 million, and mining rights of Zhangxi and Lingnan Mines secured by the Group amounted to about RMB116.6 million and time deposit of RMB1.1 million were pledged as security for obtaining the certain bank loan granted to the Group. As at 31 December 2016, the prepaid land lease payment amounted to approximately RMB13.5 million, and mining rights of Zhangxi and Lingnan mines secured by the Group amounted to about RMB116.6 million and time deposit of RMB94.2 million were pledged as security for obtaining the certain bank loan granted to the Group and issuing of bank acceptance.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2017, the Group had capital commitments of approximately RMB129.1 million for acquisition of property, plant and equipment and intangible assets, which were contracted but not provided for (2016: RMB198.4 million). As at 31 December 2017, the Group had no material contingent liabilities.

MAJOR ACQUISITION AND DISPOSAL OF ASSETS AND MERGER

Acquisition of 49% of the issued share capital of Techlux International

On 31 May 2017, the Group completed the acquisition of 49% of the issued share capital of Techlux International Holding Limited pursuant to the sale and purchase agreement entered into by ArtGo Investment Limited, a wholly-owned subsidiary of the Company and Mr. Xue Zhang Ming, an independent individual, on 13 February 2017. Techlux International Holding Limited is principally engaged in investment holding. Techlux International Holding Limited indirectly owns entire equity interest in Shangri-La Quanshi Stone Co., Ltd.* (香格里拉市泉石石材有限責任公司) (“Shangri-La Company”). Shangri-La Company holds a mining right to a limestone mine in Xianggelila City in Yunnan Province, which has expired in March 2018. At the date of this report, the Shangri-La Company is in the course of renewing the mining permit, it has obtained written approvals from certain relevant government authorities. The purchase consideration for the acquisition was in the form of cash, with RMB280,000,000 paid during 2017. For details of the transactions, please refer to the announcement of the Company dated 13 February 2017 and 31 May 2017.

Acquisition of the entire equity interests in Shiny Goal

On 23 October 2017, the Group completed the acquisition of the entire equity interests in Shiny Goal Holdings Limited pursuant to the conditional sale and purchase agreement entered into by the Group and Mr. Liu Xunyan, an independent individual and the then sole owner of Shiny Goal Holdings Limited. As at 8 September 2017, Shiny Goal indirectly holds entire equity interests in Jiangsu Taifeng Logistics Co., Ltd. (江蘇泰豐物流有限公司) (“Jiangsu Taifeng”) through a wholly-owned subsidiary in Hong Kong, Takeway Investment and a wholly-owned subsidiary in the PRC, 四川奧博有限公司. Jiangsu Taifeng is a limited liability company established in the PRC on 3 June 2011 and is principally engaged in the business of cargo handling, warehousing, and logistics and sale of mineral products. The consideration was satisfied by the allotment and issuance of 175,740,885 consideration shares at the issue price of HK\$0.81 by the Group. For details of the transactions, please refer to the announcement of the Company dated 8 September 2017 and 23 October 2017.

OUTLOOK

With the rapid urbanization processes in the PRC which boost the increasing demand for new buildings for both residential and non-residential properties in recent years, the Group believes the trend will be continued. Coupled with the increasing income level and spending power, the Group is confident that the Group’s marble business is able to enjoy the increased demand of natural stone products by offering a variety of unique patterns and colored products to the market.

The Group’s acquisition of the Jiangsu Taifeng in the year together with the successful bidding of parcels of land in Xuyi County, Jiangsu Province, the PRC last year has laid out the foundation for the future development of the modern logistics, material processing and the supply chain finance business.

During the year, the Group has placed emphasis on the cost control aspect especially over the selling and distribution costs and the result of such is encouraging. The management will continue to be conscious on different aspect of the costs and expenditures but at the same time will strike a balance between such cost control and business growth.

RESOURCES AND RESERVES

SHANGRI-LA MINE

Our Shangri-La Mine is located at Xianggelila City of Yunnan Province, China. The table below summarizes key information related to our current mining permit for the Shangri-La Mine.

Holder	Shangri-La Company
Nature of resource	marble
Covered area	approximately 0.1649 square kilometre
Issuance date	March 2015
Expiration date	March 2018
Permitted production volume	50,000 cubic meters per annum

The Yunnan Province Bureau of Land and Resources assessed a mining right fee of RMB0.56 million for a period of every three years.

The table below summarizes the marble resources of Shangri-La Mine estimated as of 31 December 2017 according to Chinese Standards.

Resources	Millions of cubic meters
Indicated	219.7
Inferred	34.0
Total	253.7

The Group had exploration activities for Shangri-La Mine in 2017 and excavated approximately 250 cubic meters marble blocks in total (2016: Nil) and no capital expenditure was incurred in 2017. (2016: Nil)

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.

The following table summarizes the marble resources of our Guiguan Mine, estimated as of 31 December 2017 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

Guiguan Stone started excavation activity in 2017 and excavated approximately 12,000 cubic metres marble blocks in total. (2016: Nil)

The capital expenditure incurred was approximately RMB38,195,000 in 2017. (2016:Nil)

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 Group is still in the course of negotiating with relevant government authorities for the renewal of the mining permit of Wenshi Mine currently.

The following tables summarize the marble resources of our Wenshi Mine, estimated as of 31 December 2017 under Chinese Standard.

Resources	Millions of cubic meters
Indicated	6.4
Inferred	<u>2.8</u>
Total	<u><u>9.2</u></u>

Guiguan Stone started excavation activity in 2017 and excavated approximately 10,000 cubic metres marble blocks in total. (2016: Nil) and no capital expenditure was incurred in 2017. (2016: Nil)

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 2017 under Chinese Standards.

Resources	Millions of cubic meters
Indicated	1.3
Inferred	<u>0.8</u>
Total	<u><u>2.1</u></u>

The Group did not have exploration, development and production activities for Dejiang Mine in 2017 (2016: None).

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 kilometre
Issuance date	5 February 2013
Expiration date	5 February 2018
Permitted production volume	250,000 cubic meters 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 Group is still in the course of negotiating with relevant government authorities for the renewal of the mining permit.

The following table summarizes the marble resources and reserves of our Yongfeng Mine, estimated as of 31 December 2017 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	<u>106.6</u>

Resources	Millions of cubic meters
Proved	23.0
Probable	21.0
Total	44.0

The estimated resources and reserves of the Yongfeng Mine as of 31 December 2017 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 2017 and have been substantiated by 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). For details of the biographical information of 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 2017 (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 2017 were identical.

The Group had mining activities for Yongfeng Mine in 2017 and excavated approximately 3,700 cubic metres marble blocks in total (2016: Nil). No capital expenditure was incurred in 2017. (2016: Nil)

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.

The table below summarizes the marble resources of Zhangxi Mine estimated as of 31 December 2017 according to Chinese Standards.

Resources	Millions of cubic meters
Measured	7.1
Indicated	18.4
Inferred	4.2
Total	<u>29.7</u>

The Group did not have exploration, development and production activities for Zhangxi Mine in 2017 (2016: 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.

The table below summarizes the marble resources of Lingnan Mine estimated as of 31 December 2017 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 2017 (2016: None).

OTHER INFORMATION

SHARE CAPITAL

The total amount of authorised share capital of the Company is HK\$30,000,000 divided into 3,000,000,000 ordinary shares of HK\$0.01 each, with 2,246,374,885 ordinary shares in issue as at 31 December 2017.

During the year, the Company issued 175,740,885 shares as consideration for the acquisition of Shiny Goal Holdings Limited.

On 3 July 2017, the Company entered into a placing agreement with a placing agent for placing of new shares. An aggregate of 159,300,000 new ordinary shares was successfully placed at the placing price of HK\$1.00 per share. The net proceeds from the placing, after deduction of the placing fee of 1.5% on gross proceeds, was approximately HK\$156,910,000 (equivalent to approximately RMB135,470,000). The net proceeds was utilized as capital investment in a subsidiary.

PRE-EMPTION RIGHT

Pursuant to the constitution of the Company and the laws of the Cayman Islands (the place where the Company was incorporated), no provision in relation to pre-emption rights shall apply to the Company.

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

For the purpose of determining the shareholders' rights to attend and vote at the annual general meeting of the Company (the "Annual General Meeting"), the register of members of the Company will be closed from Monday, 14 May 2018 to Thursday, 17 May 2018 (both dates inclusive,) during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 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 Friday, 11 May 2018.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

MAJOR SUBSEQUENT EVENTS

On 4 January 2018, the board of directors had resolved to grant share options to Ms Wu Jing, Mr. Leung Ka Kit, Mr. Gu Weiwen and certain individual to subscribe for a total of 133,333,400 ordinary shares of HK\$0.01 each in the share capital of the Company, subject to acceptance of the grantees, under the share option scheme adopted by the Company on 9 December 2013, and the payment of HK\$1.00 by each of the grantees upon acceptance of the options.

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 for dealing in securities of the Company by the Directors. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the required standards of dealings as set out in the Model Code throughout the year ended 31 December 2017, except for the non-compliance with Rules A.3(a)(i) and B.8 of the Model Code by Mr. LIU Chuanjia, an executive Director and a controlling shareholder of the Company (the “**Shareholder**”) during the black-out period for the publication of the Company’s annual results for the year ended 31 December 2014. Immediately after the occurrence of the incident, the Company had taken appropriate remedial and corrective measures to enhance the internal control of the Company. The relevant details have been set out in the 2014 annual report and 2015 interim report of the Company.

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 Company. No incident of non-compliance of the Employees Written Guidelines by the relevant employees was noted by the Company.

DIVIDEND

The Board does not recommend payment of final dividend for the year ended 31 December 2017 (2016: Nil).

AUDIT COMMITTEE

The Company has established an audit committee (the “**Audit Committee**”) which comprises three independent non-executive Directors, namely, Ms. LUNG Yuet Kwan (as chairman), Ms. ZHANG Xiaohan and Mr. HUI Yat On pursuant to the requirements under Rule 3.21 of the Listing Rules.

The Audit Committee has, in conjunction with the management of the Company, reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, and reviewed this results announcement as well as the annual results for the year ended 31 December 2017.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

The Company has complied with the code provisions as set out in the CG Code contained in Appendix 14 to the Listing Rules throughout the year ended 31 December 2017, except for the following deviation.

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive 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.

From 1 December 2016, Mr. GU Weiwen has been re-designated and appointed as vice chairman of the Board, and Ms. WU Jing has been appointed as the Acting Chief Executive Officer (details are set out in the Company dated 1 December 2016). Upon the appointment of Ms. Wu as the Acting Chief Executive Officer, Ms. Wu assumes both the roles as the Chairman and the chief executive officer of the Company in deviation from code provision A.2.1 of the CG Code. Despite so, in view of the present rapid development of the Group and further expansion of its downstream business, the Board needs the experience of Mr. Gu in doing his Vice Chairman work and the Board believes that Mr. Gu and Ms. Wu's extensive experience and knowledge, together with the support of the management shall strengthen the solid and consistent leadership and thereby vesting the roles of both Chairman and the Acting Chief 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 periodically review and improve its corporate governance practices with reference to the latest development of corporate governance operations.

PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND 2017 ANNUAL REPORT

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.artgo.cn). The annual report of the Company for the year ended 31 December 2017 will be dispatched to the Shareholders and published on the websites of the Stock Exchange and the Company in due course.

By order of the Board of
ArtGo Holdings Limited
Wu Jing
Chairman and executive Director

Hong Kong, 29 March 2018

As at the date of this announcement, the Board of Directors comprises four executive Directors namely Ms. Wu Jing, Mr. Gu Weiwen, Mr. Zhang Jian and Mr. Leung Ka Kit; one non-executive Director namely Mr. Gu Zengcai and three independent non-executive Directors namely Ms. Zhang Xiaohan, Ms. Lung Yuet Kwan and Mr. Hui Yat On.