雅高控股
ARTGO HOLDINGS

2017 Annual Report

ARTGO HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock Code: 3313

APPRECIATE
RESOURCES

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Mr. GU Zengcai

Independent Non-executive Directors

Ms. LUNG Yuet Kwan
Ms. ZHANG Xiaohan
Mr. HUI Yat On

AUTHORISED REPRESENTATIVES

Ms. WU Jing
Mr. GU Weiwen

AUDIT COMMITTEE

Ms. LUNG Yuet Kwan *(Chairman)*
Ms. ZHANG Xiaohan
Mr. HUI Yat On

REMUNERATION COMMITTEE

Mr. HUI Yat On *(Chairman)*
Ms. WU Jing
Ms. LUNG Yuet Kwan

NOMINATION COMMITTEE

Ms. WU Jing *(Chairman)*
Ms. ZHANG Xiaohan
Mr. HUI Yat On

COMPANY SECRETARY

Mr. ZHAO Zhipeng

REGISTERED OFFICE

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Grand Cayman KY1-1104
Cayman Islands

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

9th Floor
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Xiamen, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

AUDITORS

Ernst & Young

CORPORATE INFORMATION

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Royal Bank House
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Cayman Islands

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

Agricultural Bank of China
Shanghai Changping Road Branch
818 Xikang Road
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Shanghai
PRC

China Merchants Bank
Northern Sichuan Branch
No. 1668 Sichuan North Road
Hongkou District
Shanghai
PRC

China Citic Bank
Xiamen Branch, Fushan Sub-branch
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Siming District
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PRC

STOCK CODE

3313

WEBSITE

www.artgo.cn

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "**Board**") of ArtGo Holdings Limited (the "**Company**", together with its subsidiaries referred to as the "**Group**"), I am pleased to present to you the audited consolidated results of the Group for the year ended 31 December 2017.

2017 remained a challenging year to the Group due to the competitive marble stone business environment in which the Group operates. Consumers' awareness over price and quality of marble products are the key elements the Group need to address. Our revenue from marble products has recorded an encouraging growth of 28% from last year despite the downward pressure on the average selling prices of the marble products. Coupled with the steady growth in commodity trading, we achieved an overall increase in revenue of approximately 20% in the year to RMB1,271 million. With the successful acquisition of a company engaged in the logistics business in Jiangsu Province, the PRC, the Group established a new business segment of logistics services. Although the segment is yet to contribute significantly to the Group's results, it symbolized the Group's tapping in the logistics distribution business which facilitate the future launching of the supply chain financing business. The Group recorded a net profit of approximately RMB7.8 million which is a turnaround from the previous year's loss of approximately RMB0.5 million.

In the past years, the Group had been focusing on the integration and merger and acquisition of marble mines. During the year, we introduced to the market, our new stone products, namely the Black Marquina and the Golden Shangri-La produced by our newly acquired mines, which enriched our product lineup. With China's economic growth continues to boost the overall consumers' wealth, the trend for consumers to pursuit of higher living standard create the momentum for the increasing demand of high-end decoration materials in which marble products is one of the popular choices for architectural decoration. As such, we believe the Group shall benefit from the domestic demand bring along by such trend in the foreseeable future.

Apart from the domestic demand, the "Belt and Road" initiative together with the 2017 BRICS Summit which was held in Xiamen where one of the world's major stone processing and trading hub, namely Shuitou, is located shall promote international marble trading activities especially among the BRICS. While the Group has been focusing on the domestic market in the past years, we consider that international marble trading possesses great potential to the Group to further explore in future.

Looking forward, the Group will continue to expand its marble business with a strategy to extend its supply chain to the end-users. The recent negotiation for the potential acquisition of a downstream construction service business is one of the steps of such business strategy. In the meantime, to diversify the Group's business, we will continue to identify and develop other businesses such as supply chain financing and logistics service businesses in order to provide a sound return to our shareholders and the growth of the Group as a whole.

Finally, on behalf of the Board, I would like to take this opportunity to thank our Shareholders for their constant trust. I would also like to express our sincere gratitude to our customers, suppliers and business partners for their continued support to the Group. My appreciation also goes to the management team and all of our colleagues for their dedication and contribution to the Group in such challenging year.

WU Jing
Chairman and Executive Director

Hong Kong, 29 March 2018

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 services business.

MANAGEMENT DISCUSSION AND ANALYSIS

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 percentage	Gross profit margin		Approximate percentage	Gross profit 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 services	933	–	7.5	–	–	–
Chemical commodities	1,119,648	88.1	1.2	942,257	88.9	2.9
Total	1,271,058	100.0	6.0	1,059,457	100.0	9.3

MANAGEMENT DISCUSSION AND ANALYSIS

(b) *Sales Volume and Average Selling Price*

The following table sets out the sales volume and average selling prices of marble blocks, one-side-polished slabs, 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 9,004.9m^3, 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/m^2 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/m^2 to RMB400/m^2, accordingly the average selling price deceased from RMB213/m^2 in 2016 to RMB129/m^2 in 2017.

Unit selling price of cut-to-size slabs increased from RMB260/m^2 in 2016 to RMB299/m^2 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 STRUCTURE

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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") aggregated to approximately RMB115.6 million; and (iii) for the prepaid land leasements 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.

KEY RISK FACTORS AND UNCERTAINTIES FACING THE COMPANY

The Group monitors the development of the industry on a timely basis and assesses different types of risks in order to formulate proper strategies to minimize the adverse impact on the Group. For details, please refer to note 41 "Financial Risk Management Objectives and Policies" to the financial statements.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

MAJOR ACQUISITION AND DISPOSAL OF ASSETS AND MERGER

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

On 31 May 2017, the Group completed the acquisition of 49% of the issued share capital of Techluxe 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. Techluxe International Holding Limited is principally engaged in investment holding. Techluxe 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, 四川奐博有限公司. 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.

DIVIDEND

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

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 the PRC classification of solid mineral resources ("Chinese Standards").

Resources	Millions of cubic meters
Indicated	2.2
Inferred	0.3
Total	2.5

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)

MANAGEMENT DISCUSSION AND ANALYSIS

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 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).

MANAGEMENT DISCUSSION AND ANALYSIS

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	2.8
Total	9.2

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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	0.8
Total	2.1

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

MANAGEMENT DISCUSSION AND ANALYSIS

YONGFENG MINE

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

Holder	Jueshi Mining
Nature of resource	marble
Covered area	approximately 2.0 square 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	106.6

MANAGEMENT DISCUSSION AND ANALYSIS

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: approximately 9,700 cubic metres). No capital expenditure was incurred in 2017. (2016: Nil)

MANAGEMENT DISCUSSION AND ANALYSIS

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	29.7

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

MANAGEMENT DISCUSSION AND ANALYSIS

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).

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHICAL DETAILS

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

Name	Age	Management Position
Ms. WU Jing	32	Executive Director, Chairman and Acting Chief Executive Officer
Mr. GU Weiwen	48	Executive Director and Vice Chairman
Mr. ZHANG Jian	43	Executive Director
Dr. LEUNG Ka Kit	41	Executive Director
Mr. GU Zengcai	55	Non-Executive Director
Ms. LUNG Yuet Kwan	52	Independent non-Executive Director
Ms. ZHANG Xiaohan	33	Independent non-Executive Director
Mr. HUI Yat On	58	Independent non-Executive Director

EXECUTIVE DIRECTORS

Ms. WU Jing (伍晶), aged 32, has been appointed as the executive Director on 9 March 2016 and is currently Chairman of the Board and Acting Chief Executive Officer of the Company. Ms. Wu is also responsible for promotion and marketing affairs of the Company. Ms. Wu has 7 years' experience in corporate brand management. In 2010, Ms. Wu founded a management consulting firm, which provided consultancy services in relation to brand promotion, sales and public relations to the local and overseas organizations and corporations since February 2010, including but not limited to Information Services Department of The Government of the Hong Kong Special Administrative Region of the People's Republic of China, Hong Kong Tourism Board, Standard Chartered Bank (Hong Kong) Limited, Hang Seng Bank Limited, DTZ Holdings PLC, Sinopec (Hong Kong) Limited, Suning Commerce Group Co., Ltd., Powerchina Resources Ltd.. In June 2008, Ms. Wu obtained her bachelor's degree in biological technology from Wuhan University. She then obtained her master of science degree in environmental engineering from the Hong Kong University of Science and Technology and her master degree in industrial engineering and logistics management from the University of Hong Kong in November 2009 and November 2010, respectively. In 2015, she was awarded the "Ten Outstanding New Hong Kong Young Persons (十大傑出新香港青年)". She is currently the standing director of Jiangsu Women Association* (江蘇聯會婦女會) and the director of Jiangsu Youth Association* (江蘇青年總會). As of the date of this annual report, save as disclosed above, Ms. Wu did not hold directorship in any listed public companies in the past three years.

DIRECTORS AND SENIOR MANAGEMENT

Mr. GU Weiwen (顧偉文), aged 48, has been appointed as the executive Director and Chief Executive Officer on 9 March 2016, and re-designated as Vice Chairman of the Company on 1 December 2016. Mr. Gu has nearly 27 years' experience in trading, investment and financing. Prior to joining the Group, Mr. Gu served as the wholesale executive of Shanghai Textiles Ltd.* (上海紡織品總公司) from July 1990 to July 1992. From August 1992 to September 1994, Mr. Gu served as the manager of the apparel department of Orient Shopping Center Ltd.* (上海東方商厦有限公司). From October 1994 to October 2000, Mr. Gu served as the general manger of Shanghai Huifeng Textile Group Ltd.* (上海惠豐毛紡織集團有限公司). From January 2001 to October 2011, Mr. Gu served as the general manager of Chengdu Runheng Investment Ltd.* (成都潤衡投資有限公司). From October 2011 to February 2016, Mr. Gu served as assistant to the chairman of China Dredging Environment Protection Holdings Limited (stock code: 871), a company listed on the Stock Exchange. Mr. Gu obtained the diploma from Commerce College of the Shanghai University (上海大學商學院) (now known as School of Economics, the Shanghai University) majoring in trading economics in July 1990. In 1991, Mr. Gu obtained the qualification as economic analyst as confirmed by the appraisal committee after the discussion by the vocation reform office of Shanghai Textiles Ltd.* (上海紡織品公司). In 1993, Mr. Gu obtained the qualification as an assistant economic analyst as confirmed by the appraisal committee for junior occupational positions of Shanghai Huifeng Textile Group Ltd.* (上海東方商厦有限公司). As of the date of this annual report, save as disclosed above, Mr. Gu did not hold directorship in any listed public companies in the past three years.

Mr. ZHANG Jian (張健), aged 43, has been appointed as the executive Director on 9 March 2016 and is currently the deputy general manager of the Company and the general manager of the marble production and processing department and international sales department of the Company, where he is responsible for mine production management, marble processing and production and operations management and international sales management of the Group. Mr. Zhang joined the Group in October 2012 and has nearly 16 years' experiences in stone exploitation, stone processing, quality control and international trade of stone. Prior to joining the Group, Mr. Zhang served at unit 32525 of the People's Liberation Army of the People's Republic of China in Xiamen (廈門中國人民解放軍32525部隊) from December 1993 to December 1997. From March 2003 to March 2006, he served as a procurement officer of Best Cheer Stone Group Ltd.* (高時石材集團有限公司). From March 2006 to October 2012, he served as the procurement manger of Xiamen Zhonglianfa Import and Export Co., Ltd.* (廈門中聯發進出口有限公司). As of the date of this annual report, save as disclosed above, Mr. Zhang did not hold directorship in any listed public companies in the past three years.

DIRECTORS AND SENIOR MANAGEMENT

Dr. LEUNG Ka Kit (梁迦傑), aged 41, has been appointed as the executive Director on 8 June 2016. Dr. Leung obtained a doctorate degree and a master's degree in education management at the Tarlac State University (太歷國立大學) in the year of 2013 and 2011 respectively. Dr. Leung also obtained a master degree of science in environmental science at the Hong Kong University of Science and Technology in 2009 and a bachelor degree of science in health and safety at Curtin University of Technology in 2006. Dr. Leung is the leading auditor for ISO9001 and ISO14001 quality management system and has almost 15 years of management experience in various multinational enterprises, focusing on nuclear power, thermal power, hydraulic engineering, quality management, environmental safety and comprehensive enterprise system management. Save as disclosed above, Dr. Leung did not hold any directorship in the past 3 years in any other listed companies. Dr. Leung is the spouse of a current executive Director, Ms. Wu Jing, save as disclosed, Dr. Leung is and was not connected with any Director(s), senior management or substantial or controlling shareholder(s) (as defined in the Rules Governing the Listing of Securities on The Stock Exchange) of the Company, other than the relationship arising from his directorship with the Company.

NON-EXECUTIVE DIRECTOR

Mr. GU Zengcai (顧增才), aged 55, has been appointed as non-executive Director of the Company on 8 June 2016. Mr. Gu graduated in the profession of industrial accounting school from Jiangsu Radio and TV University (江蘇廣播電視大學) in 1986. Mr. Gu worked as the director of audit department and vice manager of finance department in Zhuhai Port Co., Ltd. (珠海港股有限公司) (formerly known as Zhuhai Fuhua Group Co., Ltd. (珠海富華集團股份有限公司)) (a company listed as A share with stock code 000507) from October 1993 to August 1994. From September 1994 to April 2002, Mr. Gu worked in China Resources Bank of Zhuhai Co., Ltd. (珠海華潤銀行) (formerly known as Zhuhai Commercial Bank) (the "CR Bank") and served as the deputy director of Zhuhai Huayin City Credit Cooperatives (珠海華銀城市信用社), the branch president of CR Bank, and the manager of the capital department, finance department and credit department in the headquarter of the CR Bank. Mr. Gu was also appointed as the executive director of the Zhuhai Holdings Investment Group Limited (a company listed on The Stock Exchange with stock code 00908) (formerly known as Jiuzhou Development Company Limited) from October 2003 to August 2012 and the deputy chairman of the board of directors in the same company from August 2006 to August 2012. Mr. Gu obtained the certificate of the accountant and auditor in the year of 1992 and the certificate of Chinese Public Accountant in 1993. Save as disclosed above, Mr. Gu did not hold any directorship in the past 3 years in any other listed companies.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. LUNG Yuet Kwan (龍月群), aged 52, has over 20 years of professional experience in auditing, accounting and financial management for both private and listed corporations. Ms. Lung joined as executive vice president of the finance department of Ground International Development Limited (formerly known as "China Motion Telecom International Limited", a company listed on the Stock Exchange with stock code 0989) since December 2005 and acted as the chief financial officer, company secretary and the authorised representative of Ground International Development Limited for the period from November 2013 to February 2016. Ms. Lung holds a bachelor degree in business from Monash University, Australia. She is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants.

Ms. ZHANG Xiaohan (張曉涵), aged 33, holds a bachelor degree in laws from The University of Nottingham and a master degree in social economics from University of Oxford. Ms. Zhang served as an associate vice president in CCB International (Holdings) Limited from September 2012 to September 2013 and was principally engaged in overseas listing, acquisition and crossborder financing. From the end of 2013 to October 2014, Ms. Zhang served as a deputy director in capital markets finance department in Industrial and Commercial Bank of China (Asia) Limited and was principally engaged in the matters regarding issue of offshore RMB bonds and USD bonds. From October 2014, Ms. Zhang serves as the senior manager of structured investment and finance department of CITIC Capital Holdings Limited and is principally engaged in private equity financing, structured financing and cross-border financing. Ms. Zhang has professional experience in the area of corporate investment and financing. Ms. Zhang is also a member of the 23rd General Committee of Hong Kong United Youth Association and a committee member of Zhejiang United Youth Association (浙江省青年聯合會).

Mr. HUI Yat On (許一安), aged 58, has been appointed as independent non-executive Director of the Company on 8 June 2016, and is chairman of the Remuneration Committee, member of the Audit Committee and member of the Nomination Committee of the Company. Mr. Hui graduated from the Chinese University of Hong Kong with a bachelor degree in business administration in December 1982. In November 2004, Mr. Hui obtained a master's degree in professional accounting from Hong Kong Polytechnic University. Mr. Hui has become a member of the Hong Kong Institute of Certified Public Accountants in December 1986. He is also a member of the Hong Kong Chiu Chow Chamber of Commerce. Mr. Hui was an independent non-executive director of Peace Map Holding Limited, a company listed on the Stock Exchange (stock code: 0402), from 10 August 2012 to 21 July 2016. Mr. Hui has previously served as the executive director and senior executive of several Hong Kong listed companies. Mr. Hui has nearly three decades of experiences in the field of corporate finance and financial services. Save as disclosed above, Mr. Hui did not hold any directorship in the past 3 years in any other listed companies.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. NIE Zhiqiang (聶志強), aged 50, is currently the vice president of Jueshi Mining in charge of production, responsible for mining plans confirmation, product quality control and product transportation of our Group. Mr. Nie joined our Group on 18 June 2012, and has over 23 years of experience in mining production. Prior to joining our Group, Mr. Nie was responsible for the mining production and management of various companies. He worked in Shanxi Sida Construction Materials Co., Ltd from June 1991 to October 1997, serving as general staff, supervisor of quality control, head of production and person-in-charge of mining operation, respectively, responsible for the quality control and assurance of granite mines and production management, including a detailed analysis of the granite exploration and extraction process. He worked in Shanxi Huajun Stone Enterprise Co., Ltd. from November 1997 to November 2000, serving as production manager and mining head, responsible for the production, exploration and extraction management of a mine and a mine processing plant, including marbles and stones. From March 2001 to August 2004, Mr. Nie was the mine and factory manager of Shanxi Evergreen Stone Co., Ltd., responsible for mineral resource management and formulation and execution of granite mining production plans. From March 2005 to June 2009, he was the assistant manager and the mine manager of the mineral resource department of Universal Marble & Granite (Dongguan) Co., Ltd., responsible for mining and management, including the daily management of the marble mining and resources department, evaluating mine acquisition targets by assessing the nature and quality of marble and granite in mines, formulating marble mine exploration plans and proposals to facilitate mining production, organizing and coordinating mining exploration and extraction activities, and organizing training for mining personnel on the technical, safety and environmental protection aspects of marble mines. From February 2010 to June 2012, he served as the vice general manager of Hubei Era Mining Co., Ltd., responsible for overseeing marble mining affairs and the operation of a marble mine processing plant, which covered the marble exploration and extraction process.

Mr. ZHANG Jiyan (張繼燕), aged 46, is currently the deputy manager of the technology and quality research department and the deputy chief of the building preparatory group for the stone processing plant of the Company, where he is responsible for supervising mining and stone processing, as well as identifying processing contractors and coordinating the specific preparatory efforts for building the Company's own stone processing plant. He has almost 20 years of experience in marble processing and quality control and before joining the Company, he worked for various marble processing and trading companies including, among others, Xiamen Yongwen Stone Materials Factory* (廈門市永文石材廠), Baodeli Stone Materials Factory* (廈門市開元區包德力石板材廠), Fujian Shuitou Shijing Yongxing Stone Materials Factory* (福建水頭石井永興石材廠) (now known as Fuji an Quanzhou Huayi Stone Materials Limited* (福建省泉州市華益石材有限公司) and Zhangzhou Riquan Inspection Centre* (漳州日泉檢品中心), a subsidiary of Xiamen Riquan Trading Company* (廈門日泉貿易公司). During which, Mr. Zhang obtained experience in coordinating and guiding exploration and mining, which has enabled him to communicate and work effectively with the senior managers at the mines. He had also been involved in the development of a series of professional guidelines including raw material quality standards and slab quality standards, whereby the quality of the raw materials from mines, which are required at the processing stage, is strictly under control to ensure the best cutting quality from such raw materials for the purpose of an optimal production-sales relationship and a maximized use of stone resources. Mr. Zhang joined the Company in August 2011 when he was involved in the total management, operations and product quality control at the then newly acquired Yongfeng Mine. Subsequently, he acted as a key executive in charge of production and sales coordination and quality control, during which, he equipped with his professional competence in manufacturing processes and technologies and in both the national and the international quality control standards, closely supervised, guided and, on a continuing basis, improved the exploration, extraction and production process of contractors from the perspective of marketability, customer satisfaction and technical application. Mr. Zhang has administered stringent control over the quality of raw materials, semi-finished goods and final products of the Company having regard to market demand and product positioning. At the same time, Mr. Zhang formulates strategies and optimal improvement plans in line with market demand and in doing so, he has produced good results from the coordination efforts in production and sales.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Lee Wai Ming (李偉明), aged 50, is currently the Chief Finance Officer of the Company in charge of the Group's financial planning, corporate finance and management issues. He joined the Group in September 2017. Mr. Lee is a fellow member of the Association of Chartered Certified Accountants and a certified public accountant of the Hong Kong Institute of Certified Public Accountants. He has over 20 years of experience in auditing, accounting and corporate finance field. Prior to joining the Group, Mr. Lee had served various senior positions at various private and listed companies (the shares of which have been listed on the Stock Exchange). He had also served as a professional accountant in the audit department of an international audit firm for over 10 years.

Mr. JIANG Shikui (蔣世奎), aged 37, is currently the Chief Operation Officer of the Company. Mr. Jiang joined the Group in 2016 and he has over 10 years of experience in stone industry, including the field of mining processing, production management, quality control, technology development, market development and marketing management.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

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

The Company has adopted the code provisions of the Corporate Governance Code (the “CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) as its own code to govern its corporate governance practices. The Company has been conducting its business according to the principles of the CG Code during the year ended 31 December 2017.

During the year ended 31 December 2017, the Company has complied with the code provisions as set out in the CG Code, except for the deviation from code provision A.2.1 as explained in the relevant paragraph of this corporate governance report.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Having made specific enquiry of all Directors, the Directors have confirmed that they have complied with the required standard of dealings as set out in the Model Code throughout the year ended 31 December 2017.

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

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

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

Executive Directors:

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

Non-executive Director:

Mr. Gu Zengcai

Independent non-executive Directors:

Ms. Lung Yuet Kwan *(Chairman of the Audit Committee and member of the Remuneration Committee)*
Ms. Zhang Xiaohan *(member of the Audit Committee and the Nomination Committee)*
Mr. Hui Yat On *(Chairman of the Remuneration Committee and member of the Audit Committee and the Nomination Committee)*

Independent non-executive Directors

During the year ended 31 December 2017, the Board at all times met the requirements of the Listing Rules 3.10(1) and (2), and 3.10A relating to the appointment of at least three independent non-executive directors, representing at least one-third of the Board, with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

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

The Board members have no financial, business, family or other material/relevant relationships with each other to ensure strong independence exists across the Board. All directors, including non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. The biographical information of the Directors is set out on pages 22 to 27 of this annual report.

CORPORATE GOVERNANCE REPORT

Appointment and Re-election of Directors

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

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

Responsibilities, Accountabilities and Contributions of the Board and Management

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

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

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

Continuous Professional Development of Directors

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

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

The induction materials, including directors' manual and legal and regulatory update have been provided to the newly appointed Directors, Ms. Lung Yuet Kwan and Ms. Zhang Xiaohan for their reference and studying.

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

CORPORATE GOVERNANCE REPORT

Relevant reading materials including directors' manual and legal and regulatory update have been provided to the Directors for their reference and studying. The Directors have participated in the following trainings during the year ended 31 December 2017:

	Types of training
Executive Directors	
Ms. Wu Jing	B, C
Mr. Gu Weiwen	C
Mr. Zhang Jian	C
Mr. Li Dingcheng (resigned on 22 December 2017)	C
Dr. Leung Ka Kit	B, C
Non-executive Director	
Mr. Gu Zengcai	C
Independent non-executive Director	
Mr. Liu Jianhua (resigned on 30 June 2017)	C
Mr. Wang Hengzhong (resigned on 1 June 2017)	C
Ms. Lung Yuet Kwan (appointed on 1 June 2017)	C
Ms. Zhang Xiaohan (appointed on 1 June 2017)	C
Mr. Hui Yat On	C

A Attending in-house briefing

B Attending seminar(s) and training(s)

C Reading materials relating to Listing Rules and directors duties and responsibilities

CHAIRMAN AND CHIEF EXECUTIVE

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

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

CORPORATE GOVERNANCE REPORT

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

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

Despite so, in view of the present rapid development of the Group and further expansion of its downstream business, the Board is of the opinion that, Ms. Wu's extensive experience and knowledge in the business of the Group, together with the support of the management shall strengthen the solid and consistent leadership and thereby vesting the roles of both Chairman and Acting 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 continuously seek to re-comply with code provision A.2.1 by identifying and appointing a suitable and qualified candidate to the position of chief executive officer of the Company in due course.

NON-EXECUTIVE DIRECTOR

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

BOARD COMMITTEES AND CORPORATE GOVERNANCE FUNCTIONS

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

Audit Committee

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

As at the date of this report, the Audit Committee comprises three independent non-executive Directors, namely Ms. Lung Yuet Kwan, Ms. Zhang Xiaohan and Mr. Hui Yat On. Ms. Lung Yuet Kwan has been appointed as the chairman of the Audit Committee on 1 June 2017.

CORPORATE GOVERNANCE REPORT

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

During the year, the Audit Committee held two meetings, with members present in person or through telephonic conferencing, to assess the independence of the Company's auditors, review the internal control and risk management systems, the Group's financial results and report for the year ended 31 December 2016, the Group's interim financial results and report for the six months ended 30 June 2017 before submission to the Board for approval.

The Audit Committee has in conjunction with management of the Company reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited consolidated financial statements of the Group for the year ended 31 December 2017 and the auditor's report thereon.

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

Remuneration Committee

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

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

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

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

CORPORATE GOVERNANCE REPORT

Nomination Committee

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

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

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

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

During the year, the Nomination Committee held two meetings, with members present in in person or through telephonic conferencing, to determine the policy for the nomination of Directors and the nomination procedures and the process and criteria adopted to select and recommend candidates for directorship, to review the structure, size and composition of the Board and the independence of the independent non-executive Directors and to consider and recommend to the Board on the re-election of Directors at the Annual General Meeting.

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

CORPORATE GOVERNANCE REPORT

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

The attendance record of each Director at the Board and Board Committee meetings and the general meetings of the Company held during the year ended 31 December 2017 is set out in the table below:

	Attendance/Number of Meetings				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Executive Directors					
Ms. WU Jing	10/10	N/A	2/2	2/2	1/1
Mr. GU Weiwen	8/10	N/A	N/A	N/A	1/1
Mr. ZHANG Jian	8/10	N/A	N/A	N/A	1/1
Mr. LI Dingcheng (resigned on 22 December 2017)	8/10	N/A	N/A	N/A	1/1
Dr. LEUNG Ka Kit	6/10	N/A	N/A	N/A	1/1
Non-executive Director					
Mr. GU Zengcai	2/10	N/A	N/A	N/A	1/1
Independent non-executive Directors					
Mr. LIU Jianhua (resigned on 30 June 2017)	4/10	1/2	N/A	1/2	1/1
Mr. WANG Hengzhong (resigned on 1 June 2017)	4/10	1/2	1/2	N/A	1/1
Ms. LUNG Yuet Kwan (appointed on 1 June 2017)	5/10	1/2	2/2	N/A	N/A
Ms. ZHANG Xiaohan (appointed on 1 June 2017)	5/10	1/2	N/A	1/2	N/A
Mr. HUI Yat On	8/10	2/2	2/2	2/2	1/1

Apart from the four regular Board meetings, the Chairman also held a meeting with the non-executive Directors (including independent non-executive Directors) without the presence of executive Directors during the year ended 31 December 2017.

Corporate Governance Functions

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

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

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2017.

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

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 82 to 89.

AUDITORS' REMUNERATION

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

During the year ended 31 December 2017, the total fees paid/payable in respect of audit services provided by Ernst & Young were RMB2,900,000. There was no non-audit service fee incurred for the year ended 31 December 2017.

INTERNAL CONTROL

During the year ended 31 December 2017, the Board, through the Audit Committee, conducted a review of the effectiveness of the internal control system of the Company, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

COMPANY SECRETARY

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

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

For the year ended 31 December 2017, Mr. Zhao undertook the relevant professional trainings as required under Rule 3.29 of the Listing Rules.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

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

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

- Any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company (the "Eligible Shareholder(s)") shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require an extraordinary general meeting ("EGM") to be called by the Board for the transaction of any business specified in such requisition, including making proposals or moving a resolution at the EGM.

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

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

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

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

CORPORATE GOVERNANCE REPORT

Putting Forward Enquiries to the Board and Contact Details

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

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

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

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2017, the Company has not made any changes to its Articles of Association. An up to date version of the Company's Articles of Association is also available on the websites of the Stock Exchange and the Company.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

All of the recommendations from the Group's internal audit department will be properly followed up to ensure that they are implemented within a reasonable period of time. The Board and the Audit Committee considered that the key areas of the Group's risk management and internal control systems, including the adequacy of resources, qualifications and experience of our accounting, internal audit and financial reporting staff, and their training programs and budget, are reasonably implemented and the Group has fully complied with provisions of the CG Code regarding risk management and internal control systems in general for the year ended 31 December 2017.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

CORPORATE RESPONSIBILITY POLICY

Maintain Highest Ethical Standards

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

Focus on Health and Safety

- Health and safety issues are always our top priority

Minimise Environmental Impact

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

Contribute to Communities

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

Respect Our Staff

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

Encourage Partners to Set High Standards

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

Culture and Education

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

POLICY IMPLEMENTATION

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

Summary of 2017

The Group took such measures as stepping up efforts in waste recycling, strengthening employees' awareness of responsibilities, providing employees with safe and environmental-friendly quality workshop, boosting employees' motivation and sense of happiness through trainings and other joyful educational activities, promoting environmental protection measures including classification of wastes, and strengthening employees' occupational safety awareness.

FOREWORD

ArtGo Holdings Limited and its subsidiaries are pleased to present the Environmental, Social and Governance Report for the year of 2017. The Company manages a diversified business portfolio involving mining, processing and sale of marble stones as well as commodity trading, and providing products ranging from marble slabs, standard cut to size marble, antique series, water jet, border series and marble related crafts, to bathroom and tailor-made household products. In 2017, the Company further expanded its business portfolio and scale by acquiring a wholly-owned subsidiary Jiangsu Taifeng Logistics Co., Ltd. and an associate Yunnan Shangri-La Quanshi Stone Co., Ltd (雲南省香格里拉市泉石石材有限責任公司). The Company has endeavoured to operate its business in a sustainable manner, and has built a logistics supply chain park, combining finance with conventional industries. The Report serves as an important tool to communicate to all stakeholders the Company's efforts to promote sustainability developments, and to demonstrate its ongoing commitment to enhancing its economic, social and environmental performance.

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

The Company also follows a sustainable development strategy by providing the employees with safe and healthy working environment as well as talent training and development, promoting and implementing supply chain management policies, and administering a set of comprehensive policies, mechanisms and measures for environmental protection, and community involvement and participation, with the objective to carry through sustainable development and operation. Through the establishment of a variety of internal communication channels, the Company's core values will be recognised and implemented by the employees, and the its sustainable operation will be enriched by the employees' enthusiasm and actions of accountability, and its strategic planning and implementation efficiency will be strengthened, thus bringing customers services of higher value, and enhancing the competitiveness of the Company. This Report is prepared in accordance with the Environmental, Social and Governance Reporting Guide ("ESG Guide") under Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, summarising mainly key measures and actions of the Company during the period from 1 January 2017 to 31 December 2017, and covering the policies on the three main elements of economy, environment, and society.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Chapter	Corresponding Aspect (per ESG Guide published in 2016)
Protecting the Environment	**A. Environmental:** A1 Emissions A2 Use of Resources A3 The Environment and Natural Resources
Caring for Staff	**B. Social:** ➢ Employment and Labour Practices: B1 Employment B2 Health and Safety B3 Development and Training B4 Labour Standards
Responsible Operating Practices	**B. Social:** ➢ Operating Practices: B5 Supply Chain Management B6 Product Responsibility B7 Anti-corruption
Community Involvement	**B. Social:** ➢ Community Participation: B8 Community Investment

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A ENVIRONMENTAL PROTECTION

Environmental Policy

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

- Ensure compliance with all local environmental and related legislation
- Encourage staff at all levels, business partners and other stakeholders to perform their environmental obligations
- Request all new employees to attend EHS on-board training to ensure that they understand our commitment to environmental protection
- Identify environmental impacts associated with our operations, and set targets to continually improve our environmental performance
- Improve energy efficiencies by adopting best practicable designs and technologies
- Regularly measure and report our emission of GHG such as CO_2, NOx and SO_2
- Record all emission data, analyse it in detail, and incorporate it in the KPI of employees at all levels
- Actively encourage our stakeholders to reduce their carbon footprint
- Actively promote classification of waste, treatment of harmful and harmless wastes, provision of recycle bins and other environmental protection measures
- Minimise waste generation whenever practical in daily operations through recycling and waste reduction at source
- Embrace green purchasing practices and adopt best practicable technologies to conserve natural resources
- Provide good indoor environmental quality to ensure that all the work environments are healthy
- Provide indoor and outdoor greening and plants
- Provide regular environmental training to employees and continue to raise their awareness on the issues

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Environmental friendly and green office space

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A1 Emissions

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

With respect to exhaust gas management:

Exhaust gas of the Company is produced mainly by official cars and light transportation vehicles. The Company adopts strict approval system for official cars, and has formulated a set of rules for light transportation vehicles, such as detailed record of mileage and fuel consumption spending, regular calculation and pooled analyses of discharge for constant improvement. In 2017, the Company's energy consumption was much higher than that in 2016, because as the Company's business developed, it controlled more companies, and its exploitation quantity increased and employees had more business trips. Nevertheless, the Company indirectly reduced emission of exhaust gas by reducing unnecessary business trips and travels and reasonably arranging vehicles. However, certain emission is difficult to avoid. Therefore, we strive to manage and control relevant risks. In construction sites, greenhouse gas is mainly emitted by burning of fuels by generators and automobiles:

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

Emissions of air pollutants for the year 2017 are as follows:

Air pollutant	Emission (kg)
NO_x	28.17
SO_x	0.51

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Measures for reducing emission and the results:

We will use international best-practice standards to evaluate environment impacts in all projects and during mining where commercially practicable, reduce emission based on national and regional conditions, and manage relevant issues in a responsible manner. The Company will monitor and manage environmental challenges arising from changes in expectations of technology and business-related persons and in business models. In 2017, we purchased production and mechanical equipment to keep abreast with the business growth. During the purchasing process, we bought cars and mechanical tools that strictly complied with the national emission standards, in a bid to minimise our environmental impact. Moreover, along with the maturity of relevant technologies and development of our business, the Company will consider purchasing electric vehicles to replace vehicles that product oil residue and hybrid vehicles where required for the project, so as to reduce emission. In addition, we will increase the number of mechanical checks so that early repair can be performed when any problems are found.

With respect to air pollution control:

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

Wastewater control during production:

An advanced water cycle system has been applied during the production process so that the mud water produced during marble stone cutting will be deposited and compressed by the cycle system to filter out mud and stone in the water. The mud will then be compressed into solid form, the water will be deposited, purified and reused, thereby protecting the environment, avoiding dusts and reducing local water pollution.

Measures for water pollution control:

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Chemical Waste Management:

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

Treatment of solid waste:

Certain construction waste and domestic refuse are inevitable during production and daily operation. To minimise their environmental impact, the Company has long advocated and promoted waste classification and recycling. Timber, paper, metal and plastic should be separated for recycling. We also provide garbage classification bins for various projects for employees to use, and instruct employees on relevant arrangements and specifications in their on-board training.

In 2017, the Company produced 4,258.92 cubic metres of non-hazardous waste and did not produce significant amount of hazardous waste during the production process.

Emission of greenhouse gas:

The Company also attaches importance to emission of greenhouse gas and endeavors to reduce consumption of power, fuel, etc.

Data on emission of greenhouse gas is set out below:

	CO_2 equivalent emission (kg)
Scope 1 emission(1)	39,101
Scope 2 emission(2)	297,910
Total	337,011

(1) Scope 1: Direct emissions from sources that are owned or controlled by the Company, such as emissions from pipelines, factories, air-conditioning facilitates and vehicles.

(2) Scope 2: Indirect emissions from the consumption of purchased electricity and steam by the Company as a result of its operation, while the sources of emissions are owned or controlled by other companies.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Waste classification pictures are posted in offices to provide guidance on waste classification

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A2 Use of Resources

Resource Conservation:

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

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

Using recycled paper in offices

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Posting energy conservation reminder notices

Efficiently Using Resources and Reducing Waste:

Resources such as energy, water and raw materials are essential inputs to our business. ArtGo is committed to using resources wisely and efficiently and reducing waste generation within our own operations. Throughout all of our operations, we have been progressively implementing water-efficiency and energy saving measures, ranging from the installation of water-efficient faucets, other energy saving fixtures and fittings in our offices and equipment in our facilities, to encouraging the staff to save water and electricity in their daily lives. This has enabled us to achieve year-on-year intensity reductions in water usage during 2017, although as our operations expanded, both our water and power water consumption increased in absolute terms to 19,700 tonnes and 419,592 kWh, respectively.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A3 The Environment and Natural Resources

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

For mining activities, the mines implement strict policies on monthly exploitation quantity and publish Environmental Protection Policies on Mining, and upgrade exploitation methods and optimise exploitation equipments in a timely manner, so as to reduce the impact on the environment and resources. Further, the Company adopts various effective measures to reduce the waste of natural resources. In 2017, water consumption for mineral exploration significantly decreased to 13,200 tonnes. We take two actions: (1) Purchase energy-saving equipment and facilities that consume less electricity or water provided that work requirements are met. (2) A water cycle system was also introduced into the production process so that the mud water produced during marble stone cutting will be deposited and compressed by the cycle system to filter out mud and stone in the water. The mud will then be compressed into solid form, and the water will be deposited, purified and reused, thereby protecting the environment, avoiding dusts and reducing local water pollution.

In 2017, to prevent our mining activities from damaging vegetation of mining areas, we actively invested in environmental protection, greening restoring and planting. Based on our achievements in 2016, we stepped up efforts in greening and planting across 2017. We have formulated policies on the backfill of lands and mines after exploitation of mineral resources to reduce the impact on geology. To remedy plant destruction, the Company will promptly carry out reforestation after exploitation to restore greening and the origin habitats of animals. In 2017, our projects in Jiangxi, Guangxi, Fujian, Guizhou and Yunnan planted a total of 167 trees. We also increased the total number of plants in our offices by 46 which could eliminate 4,899 kg of carbon dioxide in a year.

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B CARING FOR STAFF

B1 Employment

In order to improve employees' sense of belonging towards the Company and boost team cohesiveness, we organise various activities for employees each year, including feasts and blessing activities on traditional holidays, monthly birthday parties for employees, employee parent-child activities, Mid-Autumn tea gatherings and Chinese New Year parties. These activities have effectively motivated employees and help them strike a balance between work and life. We also hold events that are educational in nature and help employees enhance their sense of superiority at work, such as Training on Safety, Quality, Environmental Protection and Health, Sale System Training, Knowledge on Safe Production, Fire Safety Training, Joint Meeting of the Group, Lecture of Independent Commission Against Corruption on Anti-Corruption, Legal Consultation Training for Board of Directors, and Annual Meeting for Dealers. On various holidays, such as Chinese New Year, Mid-Autumn's Day, and Dragon Boat Festival, we offer employees and their families mooncakes, rice dumplings, gifts and fruit.

The Company prepared mooncakes on Mid-Autumn's Day and gifts on Thanksgiving to express gratitude and extend care to employees

The Company distributed gifts to employees on the Eighth Day of the Twelfth Lunar Month to express gratitude

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company organised employee parent-child activities on Children's Day to boost team cohesiveness

The Company actively organised various cultural and artistic activities to enhance team cohesiveness

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company organised employee feasts on New Year's Day, Chinese New Year and other traditional holidays to express gratitude and warm wishes.

We meet requirements of national standards with respect to relevant mandatory labour regulations in Mainland China. The Company has always been in compliance with national statutes. Moreover, the Human Resource Department of the Company provided clearer and updated guidelines for employees in 2017. Consequently our Human Resource policies have to balance three considerations: our Company-wide Value Framework as a responsible employer, the requirement to comply fully with relevant requirements in each region we operate in, and sensitivity to local culture and business needs.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Composition of Employees:

As at 31 December 2017, the Company employed a total of 145 full-time employees, 5 of whom were from Hong Kong, and 140 were from Mainland China.

As at the end of the Reporting Period, the breakdown of employees by gender, employment category and age group is as follows:

	Number	Percentage
Total employees	145	100%
By gender:		
Male	96	66%
Female	49	34%
By employment category:		
Senior management	16	11%
Middle management	20	14%
Ordinary employee	109	75%
By age group:		
Under 30	53	37%
31–40	65	45%
41–50	22	15%
Over 51	5	3%

As at the end of the Reporting Period, turnover rates of employees by gender, age group and geographic location are as follows:

	Turnover rate
By gender:	
Male	19%
Female	22%
By age group:	
Under 30	21%
31–40	14%
41–50	32%
Over 51	23%
By geographic location:	
Hong Kong	8%
Mainland China	20%

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Employment Policy:

Almost 98% of the Company's employees are from Mainland China. The Company strictly complies with the requirements of the Labour Contract Law of the PRC without violating the relevant regulations. ArtGo adopts the remuneration policy for all female and male employees based on the principle of equal opportunity and nondiscrimination. Therefore, we adopt the same remuneration levels and structures for male and female employees, and apply the same remuneration calculation method.

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

- Paid antenatal examination and maternity leave shall be provided during pregnancy;
- Workload shall be reduced during the later stage of pregnancy;
- Childbirth allowance shall be provided during maternity leave and income of female employees who are pregnant shall not be lower than that during the normal working time;
- Fifteen days of advance maternity leave shall be provided if the physically condition requires;
- One hour of breastfeeding leave shall be provided each day after the maternity leave and before the baby becomes one year old.

We have established a fair and transparent employment system:

(1) The employment and dismissal processes are in full compliance with the labour laws and regulations of the national and local governments.

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

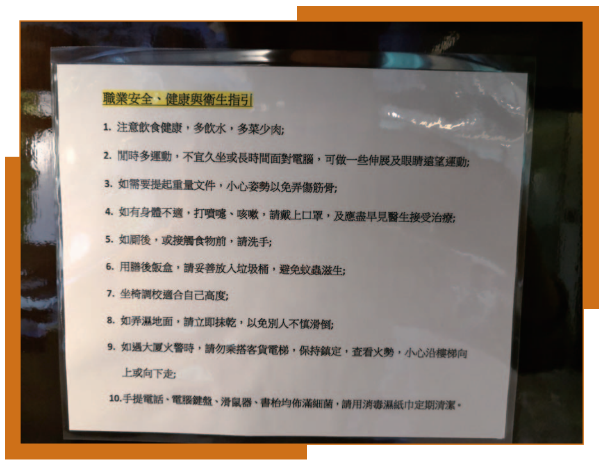
(3) Currently, the Company has a diversified workforce consisting of Mainland China employees, Hong Kong employees, and overseas returnees.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B2 Occupational Health and Safety

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

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



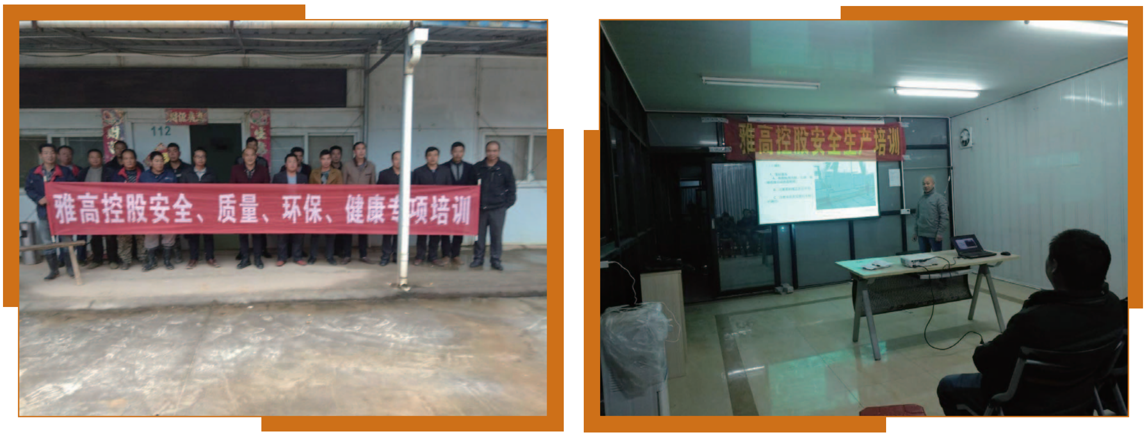
Occupational health instructions are posted and first-aid medicines are provided in offices.

We strive to enhance safety standards and establish safety culture. The improvement of social awareness and efficiency of communication network provide the driving force for us to go beyond the concept of corporate citizen responsibility in the traditional frame. Promoting safety is a focus of our policies, and also an important element for us and our business partners to perform our corporate citizen responsibility. It is our firm belief that quality and safety must go hand in hand. "Safety First" is a fundamental principle and safety assurance is a prerequisite for productivity. We aim to raise industry safety standards, diligently perform contractual obligations, and ensure site safety. We seek to instill a safety culture and continually enhance site safety and health standards via means conducive to proactively mitigating and managing risks by fostering the creation and maintenance of environmentally friendly, clean, and well-organised work sites. In 2017, there was no case of fatality due to work-related injuries although an employee took a sick leave of 122 days due to work-related injury.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

- provide information on occupational safety and health criteria and place occupational health and safety brochures in the office to provide guidance for colleagues.
- collect safety data for continuous assessment



Training on environmental protection and safety in mining

Special training on safe production for frontline workers at production bases

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In 2017, in order to better carry out safety and health works and based on the achievements in 2016, the Board and Management paid full attention to occupational safety and health, and increased efforts in inspection. The number of irregular inspections in grassroots mining areas significantly increased as compared with that in 2016. The Company established a solid team of safety examination personnel and performed irregular safety check and examination at different ranks of position in accordance with relevant management rules. This fully demonstrates the Board and Management's confidence on achieving "zero" safety accident. Further, the Company also considers safety management systems in the future, such as establishing a safety committee, setting up suggestion boxes, and performing regular safety examination.

B3 Development and Training

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

In 2017, the Company provided different courses for employees, such as: Legal Training on Listed Companies, etiquette training, anti-corruption special training, fire knowledge special training, on-board training, safety and health instructions, and environmental protection awareness training. During the year, the Company provided a total of 392 persons/sessions of training.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The average number of hours of training received by employees by gender and employment category is as follows:

	Average number of hours of training received by employees (hour)
By gender:	
Male	2.80
Female	2.05
By employment category:	
Senior management	5.47
Middle management	4.27
Ordinary employee	1.69

Special training on anti-corruption for employees

Special training on fire safety

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

On-site training on production skills

In the future, we will invest more resources in fostering employees' competitiveness, such as improving professional employees' capabilities on leadership skill, team building, management training and professional skills.

B4 Labour Standards:

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

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

(1) Right to organise and collective bargaining

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

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

(4) Prohibition of child labour

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B5 Supply Chain Management

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

We carried out the following works in operation management:

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

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

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

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B6 Product Responsibility:

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

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

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B7 Anti-corruption:

In 2017, the Company further improved the system for punishing and preventing corruption. Pursuant to the 2015-2016 Implement Measures for Work Plan on the System for Punishing and Preventing Corruption formulated by the Group, we diligently applied and implemented relevant laws and regulations on anti-commercial bribery specified by the State, the Prevention of Bribery Ordinance of Hong Kong government and the Listing Rules of the Stock Exchange, strengthened the publicity and education for personnel of the head office and production bases of the Group, as well as business personnel in particular, and pro-actively resisted all sorts of commercial briberies. We implemented accountability for department leaders, requesting department leaders to implement monitoring. In the course of providing services for clients, it is forbidden to accept gifts, cash, and various valuable securities provided by the service object for any reasons; it is forbidden to accept entertainment that affects fairness and independence, and to accept high-consumption recreation and travel activities provided by the service object; it is forbidden to neglect duties, unduly delay, and shirk responsibilities during analysis and test, and to deliberately make things difficult for or blackmail the service object.

The Internal Audit and Management Assessment shall take the implementation of the fairness statement and quality policy into account for audit and assessment. Quality monitor staff shall follow up on the correction and prevention measures relating thereto to ensure that they are duly implemented. Set up report box for the anticommercial bribery works, and publicise report telephone. In the performance of anti-commercial bribery works, the quality monitor staff shall perform monitoring and checking, discover the early signs of commercial bribery in a timely manner, and research on the counter-measure and actions for prevention of commercial bribery. We conduct research and study, learn about the characteristics and patterns of commercial bribery, and propose specific counter-measures and actions from the perspectives of education, system, and monitoring, so as to resolve the symptom and tendency issues. We improve the anti-money laundry system with the banks. Training and publicity on anti-money laundry can guide the banking industry to foster anti-money laundry awareness and create good anti-money laundry atmosphere. In 2017, the Company offered special training and guidance for management personnel and core business personnel based on the anti-corruption standards and practices of Independent Commission Against Corruption. Attendants to the training learnt lessons by example from different cases, which help avoid the occurrence of corruptions.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Special training programme on anti-corruption for employees and brochures and disks used in programme

B8 Community Involvement

Community Sustainability Principles:

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

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

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

Our community initiatives focus on three pillars: Youth Education and Development, Community Wellness and Arts and Culture. As different communities have different needs, our business units have the flexibility to prioritise and address the specific needs and sensitivities of the existing cultures, traditions and values of the local communities. Our local teams have the best knowledge of local priorities and are able to work with local governments and organisations to provide solutions that best match their needs. In addition, we contributed approximately 30 hours of voluntary service in 2017.

REPORT OF THE DIRECTORS

The Directors are pleased to present the report and the audited consolidated financial statements of the Group for the year ended 31 December 2017.

REORGANIZATION OF THE GROUP

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

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

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

Principal Risks and Uncertainties

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

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

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

REPORT OF THE DIRECTORS

Environmental protection

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

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

Compliance with laws and regulations

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

As far as the Company is aware, the Group has complied in material respects with the relevant laws and regulations which have a significant impact on the business and operations of the Company during the year ended 31 December 2017.

Key relationships with its stakeholders

1. *Workplace Quality*

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

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

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

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

2. *Relationships with other stakeholders*

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

REPORT OF THE DIRECTORS

RESULTS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated financial statements of this annual report.

DIVIDEND

The Board did not declare any interim dividend and did not recommend payment of a final dividend for the year ended 31 December 2017.

RESERVES

Details of movements in the reserves of the Group for the year ended 31 December 2017 are set out in note 32 to the consolidated financial statements and in the consolidated statement of changes in equity of this annual report, respectively.

As at 31 December 2017, the reserves of the Company available for distribution to Shareholders amounted to approximately RMB1,476.8 million (2016: RMB1,255.2 million).

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's largest and five largest customers were approximately 14.7% and 46.7% of the Group's total sales respectively. The aggregate purchases attributable to the Group's largest and five largest suppliers were approximately 37.9% and 80.8% of the Group's total purchases respectively during the year.

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

BANK AND OTHER BORROWINGS

Particulars of bank loans of the Group as at 31 December 2017 are set out in note 26 to the consolidated financial statements of this annual report.

DONATIONS

The Group did not make any charitable and other donations during the year (2016: RMB18,000).

PROPERTY, PLANT AND EQUIPMENT

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

REPORT OF THE DIRECTORS

INVESTMENT PROPERTIES

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

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital are set out in note 30 to the consolidated financial statements of this annual report. Details and movements of the share options of the Company are set out in note 31 to the consolidated financial statements of this annual report.

FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the years ended 31 December 2013, 2014, 2015, 2016 and 2017, as extracted from the audited financial statements, is set out on pages 167to 168 of this annual report.

PRE-EMPTIVE RIGHTS

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

DIRECTORS

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

Executive Directors

Ms. WU Jing (伍晶)
Mr. GU Weiwen (顧偉文)
Mr. ZHANG Jian (張健)
Mr. LI Dingcheng (李定成) (resigned on 22 December 2017)
Dr. LEUNG Ka Kit (梁迦傑)

Non-executive Director

Mr. GU Zengcai (顧增才)

Independent Non-executive Directors

Mr. LIU Jianhua (劉建華) (resigned on 30 June 2017)
Mr. WANG Hengzhong (王恒忠) (resigned on 1 June 2017)
Ms. LUNG Yuet Kwan (龍月群) (appointed on 1 June 2017)
Ms. ZHANG Xiaohan (張曉涵) (appointed on 1 June 2017)
Mr. HUI Yat On (許一安)

REPORT OF THE DIRECTORS

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

Pursuant to article 84 of the Articles, Ms. WU Jing, Mr. GU Weiwen and Mr. ZHANG Jian will retire by rotation as Director at the forthcoming AGM. All the above retiring Directors, being eligible, offer themselves for re-election at the forthcoming AGM.

Pursuant to article 83(3) of the Articles, Ms. LUNG Yuet Kwan and Ms. ZHANG Xiaohan, who were appointed as Directors during the period after the 2017 annual general meeting held by the Company on 23 May 2017, will hold office until the forthcoming AGM and be subject to re-election at such meeting.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' REMUNERATION

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

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

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

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

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

REPORT OF THE DIRECTORS

SHARE OPTION SCHEMES

Pre-IPO Share Option Scheme

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

(a) *Purpose*

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

(b) *Who may join*

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

(c) *Maximum number of Shares*

The maximum number of Shares in respect of which options may be granted under the Pre-IPO Share Option Scheme is 2,666,668 Shares representing 0.19% of the issued share capital of our Company as at 31 December 2017.

(d) *Price of Shares*

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

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

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

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

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

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

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

REPORT OF THE DIRECTORS

(f) *Payment of acceptance of option*

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

(g) *Expiry of option*

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

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

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

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

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

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

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

(h) *Status of the options granted*

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

REPORT OF THE DIRECTORS

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

Category/ name of participants	Number of options Outstanding as at 1 January 2017	Number of share options Granted during the year	Exercised during the year	Expired/ forfeited during the year	Number of options Outstanding as at 31 December 2017	Exercise price HK$	Date of grant
Other employees In aggregate	2,133,336	–	–	(1,066,667)	1,066,669	2.39	30 December 2013
Total	2,133,336	–	–	(1,066,667)	1,066,669		

Share Option Scheme

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

(a) *Purpose of the Share Option Scheme*

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

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

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

REPORT OF THE DIRECTORS

(b) *Participants of the Share Option Scheme*

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

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

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

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

(c) *Total number of Shares available for issue under the Share Option Scheme*

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

As at 31 December 2017, there were 133,333,400 options available for grant under the Share Option Scheme, representing 5.94% of the issued share capital of the Company as at 31 December 2017. On 4 January 2018, the Board had resolved to grant 133,333,400 options to several individuals (including several Directors), details are set out in the Company's announcement dated 4 January 2018.

(d) *The maximum entitlement of each Eligible Participant under the Share Option Scheme*

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

(e) *Price of Shares*

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

REPORT OF THE DIRECTORS

(f) *Timing for exercising option*

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

(g) *Payment of acceptance of option*

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

(h) *The basis of determining the exercise price of option*

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

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

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

(iii) the nominal value of a Share.

(i) *Duration of the Share Option Scheme*

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

REPORT OF THE DIRECTORS

DISCLOSURE OF INTERESTS

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

As at 31 December 2017, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interest and/or short positions which they were taken or deemed to have under such provisions of the SFO), or which as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long position in shares and underlying shares

Name of Director	Capacity	Number of Shares interested	Approximate percentage of issued Shares
Ms. Wu Jing	Spouse Interest (Note 1)	569,235,840	25.33%
	Beneficial Owner (Note 2)	97,000	0.01%
Dr. Leung Ka Kit	Interest in controlled corporation (Note 1)	569,235,840	25.33%
	Spouse Interest (Note 2)	97,000	0.01%

Notes:

1. Dr. Leung Ka Kit ("**Dr. Leung**") is interested in 569,235,840 Shares through his wholly-owned subsidiary Maswin International (Hong Kong) Co., Limited. As Ms. Wu Jing is the wife of Dr. Leung, Ms. Wu Jing is deemed to be interested in the said 569,235,840 shares.

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

REPORT OF THE DIRECTORS

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

As at 31 December 2017, as far as is known to the Directors or chief executive of the Company, the interests or short positions of the persons (other than the interests disclosed above in respect of the Directors and the chief executive) in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register as required to be kept by the Company under Section 336 of the SFO were as follows:

As at 31 December 2017, the interests or short positions of the substantial Shareholders (other than the interests disclosed above in respect of certain Directors who are also substantial Shareholders) in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register of substantial Shareholders as required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Capacity	Number of Shares interested (Note 1)	Approximate percentage of the issued share capital of the Company
Wu Jing	Interest in controlled corporation	569,332,840 (L) (Note 2)	25.34%
Leung Ka Kit	Interest in controlled corporation	569,332,840 (L) (Note 2)	25.34%
Maswin International (Hong Kong) Co. Limited	Beneficial owner	569,235,840 (L) (Note 2)	25.33%
China Marble Investment Holdings Limited	Beneficial owner	231,872,452 (L) (Note 3)	10.32%
Carlyle Asia Growth Partners IV, L.P.	Interest in controlled corporation	231,872,452 (L) (Note 3)	10.32%
CAGP IV General Partner L.P.	Interest in controlled corporation	231,872,452 (L) (Note 3)	10.32%
CAGP IV, Ltd.	Interest in controlled corporation	231,872,452 (L) (Note 3)	10.32%

REPORT OF THE DIRECTORS

Name	**Capacity**	**Number of Shares interested (Note 1)**	**Approximate percentage of the issued share capital of the Company**
TC Group Cayman Investment Holdings Sub, L.P.	Interest in controlled corporation	231,872,452 (L) (Note 3)	10.32%
TC Group Cayman Investment Holdings, L.P.	Interest in controlled corporation	231,872,452 (L) (Note 3)	10.32%
Carlyle Holdings II L.P.	Interest in controlled corporation	231,872,452 (L) (Note 3)	10.32%
Carlyle Holdings II GP L.L.C.	Interest in controlled corporation	231,872,452 (L) (Note 3)	10.32%
The Carlyle Group L.P.	Interest in controlled corporation	231,872,452 (L) (Note 3)	10.32%
Shanghai Jihua Logistic Co., Ltd.	Beneficial owner	190,000,000 (L) (Note 4)	8.46%
Qin Yin	Beneficial Owner	168,692,160 (L)	7.50%
Tong Sui Lun Franco	Beneficial Owner	167,547,160 (L)	7.46%
Sun Haocheng	Beneficial Owner	140,678,000 (L)	6.26%
China First Capital Group Limited	Interest in controlled corporation	126,096,000 (L)	5.61%

Notes:

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

2. Dr. Leung Ka Kit is interested in the entire issued shares of Maswin International (Hong Kong) Co. Limited ("**Maswin International**"), and Ms. Wu Jing is the spouse of Dr. Leung Ka Kit. Pursuant to Part XV of the SFO, Dr. Leung Ka Kit and Ms. Wu Jing are taken to be interested in the 569,332,840 Shares of the Company held by Maswin International (Hong Kong) Co. Limited.

   In addition, Maswin International holds 569,332,840 Shares of the Company, of which 260,000,000 Shares are held upon trust by Maswin International on behalf of Mr. Wang Jiangze. Accordingly, Mr. Wang Jiangze is the beneficial owner of such 260,000,000 Shares.

REPORT OF THE DIRECTORS

3. As known to the Directors after making reasonable enquiry, as at 31 December 2017, China Marble Investment Holdings Limited was approximately 91.83% owned by Carlyle Asia Growth Partners IV, L.P.. The Carlyle Group L.P. indirectly wholly owned Carlyle Asia Growth Partners IV, L.P. through Carlyle Holdings II GP L.L.C., Carlyle Holdings II L.P., TC Group Cayman Investment Holdings, L.P., TC Group Cayman Investment Holdings Sub, L.P., CAGP IV, Ltd. and CAGP IV General Partner L.P.. Therefore The Carlyle Group L.P., Carlyle Holdings II GP L.L.C., Carlyle Holdings II L.P., TC Group Cayman Investment Holdings, L.P., TC Group Cayman Investment Holdings Sub, L.P., CAGP IV, Ltd., CAGP IV General Partner L.P. and Carlyle Asia Growth Partners IV, L.P. (all being immediate or indirect holding companies of China Marble Investment Holdings Limited) are all deemed to be interested in the Shares held by China Marble Investment Holdings Limited for the purpose of Part XV of the SFO.

4. As known to the Directors after making reasonable enquiry, as at 31 December 2017, Shanghai Jihua Logistic Co., Ltd. is wholly owned by Xinxin Jihua Investment Co., Ltd (新興際華投資有限公司) (a limited company established in PRC, "**Xin Xing**"). Therefore, Xin Xing is deemed to be interested in the Shares held by Shanghai Jihua Logistic Co., Ltd* for the purpose of Part XV of the SFO.

EQUITY-LINKED AGREEMENTS

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

PERMITTED INDEMNITY PROVISION

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

MANAGEMENT CONTRACTS

For the year ended 31 December 2017, there is no contract entered into by the Company relating to its management and administration or subsisting during the year which is substantial to the entire or any substantial part of the business of the Group.

CONNECTED TRANSACTIONS

So far as the Directors and chief executive are aware, no non-exempt connected transactions or continuing connected transactions were entered into by the Group during the year ended 31 December 2017.

A summary of the related party transactions entered into by the Group during the year ended 31 December 2017 is contained in note 39 to the consolidated financial statements of this annual report. The related party transactions disclosed in note 39 to the consolidated financial statements are connected transactions or continuing connected transactions that were fully exempt from reporting, announcement, independent shareholders' approval and/or annual review pursuant to Rules 14A.76(1), 14A.90 and 14A.95 of the Listing Rules. The Company has complied with the applicable disclosure requirements under Chapter 14A of the Listing Rules in respect of such continuing connected transactions.

REPORT OF THE DIRECTORS

SUFFICIENCY OF PUBLIC FLOAT

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

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

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

AUDITORS

Ernst & Young has acted as auditors of the Company and has audited the Company's financial statements for the year ended 31 December 2017. The Company has not changed its external auditors since its listing on 30 December 2013 and up to the date of this annual report. A resolution will be proposed at the forthcoming AGM for the re-appointment of Ernst & Young as the auditors of the Company.

On behalf of the Board

Wu Jing
Chairman and Executive Director

Hong Kong, 29 March 2018

INDEPENDENT AUDITOR'S REPORT

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To the shareholders of ArtGo Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of ArtGo Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 90 to 166, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

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

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Recognition of revenue	
The Company derives a significant portion of its revenue from customers engaged in commercial property development and commodity trading. During 2017, the government in Chinese Mainland formulated multi-layered policies to restrain the overheating of the real estate market. This, in turn, adds instability and uncertainty to the overall sales of marble. Under such circumstances, revenue could be overstated as local management might be under pressure to achieve performance targets. Revenue recognition has been identified as a risk, particularly in respect of the existence and occurrence of transactions and the accuracy of revenue recognition for sales with deliveries occurring at or around the year-end. Due to the significant volume of transactions, minor errors could, in aggregate, have a material impact on the financial statements. The Group's disclosures about recognition of revenue are included in notes 2.4, 4 and 5 to the financial statements.	Our audit procedures included, among others, the following: • We discussed and reviewed the accounting treatment of sales made by the Group during the year and ensured it was consistent with previous years; • We tested the key internal controls over the timing of revenue recognition for a statistical sample of transactions; • We obtained significant sale contracts and checked the transaction terms in respect of transfer of risks and rewards of ownership; • We performed cut-off audit procedures on sales transactions taking place close before and after the year-end date to assess whether those transactions were recognised in the correct year; • We tested key reconciliations and manual journal entries posted to ensure that revenue journals were approved and corroborated with supporting evidence; • We sent and received confirmations for year-end account receivables balances to identify whether there are any material differences. For the other customers who did not reply, we performed alternative testing procedures such as reviewing the delivery order and sales invoice; • We performed subsequent event procedures to check if any significant sales returns occurred; and • We reviewed the disclosures made by the Company to check whether they were reasonable and adequate.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of non-current assets	
In accordance with International Financial Reporting Standards, the Group evaluates annually its non-current assets to determine whether there are any indications of impairment. If any indications exist, a formal estimate of the recoverable amount is performed based on the value in use or fair value less costs of disposal methodology. The Group has material investments in non-current assets related to its mining operations, including property, plant and equipment, mining rights, investment in associate and payments in advance. Given the nature of these assets, the assessment of impairment involves significant estimation uncertainty, subjective assumptions and application of significant judgement. The fluctuating marble products market in 2017 increased the judgement required in making these impairment assessments. Based on existing market conditions, impairment indicators were identified for the Group's main mining cash generating units ("CGUs"). The Group's disclosures about impairment assessment for these CGUs and assets are included in notes 2.4, 3, 13, 15, 16, 18 and 19 to the financial statements.	The audit procedures to assess impairment included the following: • We evaluated the assessment of impairment indicators of the non-current assets related to mining prepared by management; • We tested the impairment models selected for each CGU and class of assets by understanding the model methodology and comparing that to our understanding of the CGUs and assets; • We compared key market-derived estimates, including commodity prices and interest rates, against external data; • We compared key operational estimates in the models to source data and publically available information where it existed; • We involved our internal valuation specialists to assist us in evaluating the impairment assessment models; and • We also assessed the related disclosures in the financial statements.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Recoverability of trade receivables	
The Group is exposed to credit risks on trade receivables. The majority of the Group's customers operate in the real estate or trading sector. During 2017, the real estate sector in Chinese Mainland, especially in smaller cities where certain of the Group's customers operated, experienced complex political and economic environment, which impacted their ability to settle their liabilities to the Group. In the trading sector, the Group has relatively weak bargaining power regarding sales price and terms of payment as its customers are generally large operators. As a result, in the challenging economic environment, the time needed for collecting trade receivables was extended and the risk of recoverability increased. The identification of impairment and the determination of recoverable amounts are an inherently uncertain process involving significant management judgement, including their assessment of the customers' financial condition and expected future cash flows from the customers. The Group's disclosures about the recoverability of trade receivables are included in notes 2.4, 3, 21 and 41 to the financial statements.	The focus of our work involved auditing the Group's credit analysis and associated impairment assessments of trade receivables that were either in default, significantly overdue or on credit watch at 31 December 2017. Our audit procedures included, among others, the following: • We assessed and tested the design and operating effectiveness of the controls over the credit approval process and impairment assessments, including the quality of underlying data and systems; • We checked the correctness of the aging analysis of trade receivables by customer; • We selected samples of trade receivables and assessed management's assumptions used in the calculation of the impairment provision by checking the overdue balances, the customers' historical payment patterns and bank receipts for the payments received subsequent to year end. We also checked evidence for the latest progress in collecting the outstanding amounts and credit status of these significant debtors by reviewing correspondence with the debtors and by performing company search; and • We assessed the adequacy of the disclosures regarding the impairment provisions for receivables and the Group's exposure to credit risk.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Significant acquisitions	
During the year ended 31 December 2017, the Group completed the acquisition of 100% equity interests in Shiny Goal Holdings Limited. We considered the audit of the accounting treatment for this acquisition to be a key audit matter as it is a complex and judgmental exercise, which required the allocation of the purchase price to the assets and liabilities acquired and to determine their fair values. Management had engaged an independent valuation expert to assist them in the valuation of the acquired assets and liabilities. The Group's disclosures about the acquisition is included in notes 2.4 and 34 to the financial statements.	The audit procedures regarding acquisition accounting included the following: • We reviewed the equity transfer agreements, articles of association and other documents in relation to the acquisition to obtain an understanding of the transactions and the key terms; • We tested the identification of assets and liabilities based on our understanding of the acquired business; • We evaluated the accounting treatment applied to these acquisitions; • We assessed the competence and relevant experience of the expert engaged by management; • We involved our internal specialist to assist us in reviewing the valuation methodologies used by management and the external valuation expert; • We evaluated the valuation assumptions such as discount and growth rates by comparing these assumptions to source data and market data; • We evaluated the deferred taxes related to the business combination; and • We assessed the adequacy of the related disclosures in the financial statements regarding these acquisitions.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

The engagement partner on the audit resulting in this independent auditor's report is Leung Wai Lap, Philip.

Ernst & Young
Certified Public Accountants
Hong Kong
29 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
REVENUE	4, 5	**1,271,058**	1,059,457
Cost of sales		**(1,195,094)**	(961,235)
Gross profit		**75,964**	98,222
Other income and gains	6	**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	7	**(18,963)**	(24,317)
Share of losses of associates	18	**(151)**	–
PROFIT BEFORE TAX	8	**16,469**	9,649
Income tax expense	10	**(8,660)**	(10,195)
PROFIT/(LOSS) AND TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**7,809**	(546)
Profit/(loss) attributable to:			
Owners of the Company		**8,450**	(546)
Non-controlling interests		**(641)**	–
		7,809	(546)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY:			
— Basic and diluted	12	**RMB0.004**	RMB(0.000)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**130,599**	60,866
Investment properties	14	**94,334**	98,401
Prepaid land lease payments	15	**358,956**	13,271
Intangible assets	16	**1,010,669**	1,022,719
Prepayments, deposits and other receivables	22	**13,141**	14,168
Goodwill	17	**19,179**	–
Investments in associates	18	**375,399**	–
Payments in advance	19	**156,666**	480,561
Deferred tax assets	29	**9,737**	9,537
Restricted deposits	23	**2,560**	2,455
Total non-current assets		**2,171,240**	1,701,978
CURRENT ASSETS			
Inventories	20	**129,203**	179,361
Trade receivables	21	**433,109**	23,159
Prepayments, deposits and other receivables	22	**68,933**	218,813
Pledged deposits	23	**1,129**	94,226
Cash and bank balances	23	**29,356**	60,896
Total current assets		**661,730**	576,455
CURRENT LIABILITIES			
Trade and bills payables	24	**196,291**	153,150
Other payables and accruals	25	**111,428**	80,363
Tax payables		**30,970**	24,636
Interest-bearing bank and other borrowings	26	**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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	26	224,500	5,000
Deferred tax liabilities	29	12,226	2,229
Deferred income	27	5,270	5,480
Provision for rehabilitation	28	17,100	13,323
Total non-current liabilities		259,096	26,032
Net assets		2,060,782	1,796,570
EQUITY			
Equity attributable to owners of the Company			
Issued capital	30	18,349	15,482
Reserves	32	1,725,019	1,463,033
		1,743,368	1,478,515
Non-controlling interests	33	317,414	318,055
Total equity		2,060,782	1,796,570

Wu Jing
Director

Gu Weiwen
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Attributable to owners of the Company										
	Issued capital RMB'000 (note 30)	Share premium account RMB'000 (note 32(a))	Statutory surplus reserve RMB'000 (note 32(b))	Safety fund surplus reserve RMB'000 (note 32(e))	Share option reserve RMB'000 (note 32(e))	Difference arising from acquisition of non-controlling interests RMB'000	Contributed surplus RMB'000 (note 32(d))	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2016	10,492	866,908	21,160	707	6,258	(19,048)	26,636	132,511	1,045,624	–	1,045,624
Loss and total comprehensive loss for the year	–	–	–	–	–	–	–	(546)	(546)	–	(546)
Issue of new shares	4,990	432,867	–	–	–	–	–	–	437,857	–	437,857
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	318,055	318,055
Transfer from reserves	–	–	2,437	–	–	–	–	(2,437)	–	–	–
Establishment for safety fund surplus reserve	–	–	–	64	–	–	–	(64)	–	–	–
Utilisation of safety fund	–	–	–	(106)	–	–	–	106	–	–	–
Equity-settled share option arrangements	–	–	–	–	(4,420)	–	–	–	(4,420)	–	(4,420)
Transfer of share option reserve upon the forfeiture or expiry of share options	–	–	–	–	(175)	–	–	175	–	–	–
At 31 December 2016 and 1 January 2017	**15,482**	**1,299,775***	**23,597***	**665***	**1,663***	**(19,048)***	**26,636***	**129,745***	**1,478,515**	**318,055**	**1,796,570**
Profit and total comprehensive profit/(loss) for the year	–	–	–	–	–	–	–	8,450	8,450	(641)	7,809
Issue of new shares	2,867	255,448	–	–	–	–	–	–	258,315	–	258,315
Expenses for issue of new shares	–	(2,054)	–	–	–	–	–	–	(2,054)	–	(2,054)
Transfer from reserves	–	–	3,415	–	–	–	–	(3,415)	–	–	–
Establishment for safety fund surplus reserve	–	–	–	170	–	–	–	(170)	–	–	–
Utilisation of safety fund	–	–	–	(28)	–	–	–	28	–	–	–
Equity-settled share option arrangements	–	–	–	–	142	–	–	–	142	–	142
Transfer of share option reserve upon the forfeiture or expiry of share options	–	–	–	–	(805)	–	–	805	–	–	–
At 31 December 2017	**18,349**	**1,553,169***	**27,012***	**807***	**1,000***	**(19,048)***	**26,636***	**135,443***	**1,743,368**	**317,414**	**2,060,782**

* These reserve accounts comprise the consolidated reserves of RMB1,725,019,000 (2016: RMB1,463,033,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	**2017 RMB'000**	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**16,469**	9,649
Adjustments for:			
Depreciation of items of property, plant and equipment	13	**10,518**	9,946
Depreciation of investment properties	14	**4,067**	3,389
Amortisation of prepaid land lease payments	15	**1,821**	266
Amortisation of intangible assets	16	**12,050**	385
Share of losses of associates	18	**151**	–
Impairment of trade receivables	21	**478**	5,099
Loss on disposal and write-off of items of property, plant and equipment	8	**–**	4,041
Deferred income released to profit or loss	27	**(210)**	(210)
Equity-settled share option expense	31	**142**	(4,420)
Finance costs	7	**18,963**	24,317
Unrealised foreign exchange (gain)/losses, net		**(1,343)**	3,369
Bank interest income	6	**(514)**	(9,346)
		62,592	46,485
(Increase)/decrease in trade receivables		**(409,780)**	35,063
Decrease/(increase) in inventories		**50,158**	(106,739)
Decrease in prepayments, deposits and other receivables		**14,754**	58,958
Increase/(decrease) in trade and bills payables		**43,141**	(24,466)
Increase/(decrease) in other payables and accruals		**26,914**	(13,977)
Cash used in operations		**(212,221)**	(4,676)
Income tax paid		**(2,593)**	(11,844)
Interest paid		**(16,463)**	(22,762)
Interest received		**514**	17,213
Net cash flows used in operating activities		**(230,763)**	(22,069)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		**(31,747)**	(316,478)
Purchase of mining rights		**–**	(2,425)
Acquisition of subsidiaries	34	**69**	(288,661)
Acquisition of associates		**(375,550)**	–
Proceeds from disposal of items of property, plant and equipment		**–**	1,099
Decrease in time deposits with maturity of over three months		**–**	571,428
Purchase of land use rights		**(119,367)**	(172,412)
Refund of payment in advance		**152,041**	–
Refund of deposits for acquisition of an associate		**50,000**	–
Decrease/(increase) in restricted deposits		**92,992**	(66,195)
Net cash flows used in investing activities		**(231,562)**	(273,644)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares, net	30	**135,470**	–
Proceeds from shareholder loan		**2,898**	–
Proceeds from repayment of receivable from a shareholder		**94,853**	–
Proceeds from borrowings		**411,801**	218,890
Repayment of borrowings		**(215,580)**	(148,808)
Net cash flows from financing activities		**429,442**	70,082
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(32,883)**	(225,631)
Cash and cash equivalents at beginning of the year		**60,896**	289,896
Effect of foreign exchange rate changes, net		**1,343**	(3,369)
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	**29,356**	60,896

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

1. CORPORATE AND GROUP INFORMATION

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

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

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Place and date of incorporation/registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company %	Principal activities
Directly held:				
ArtGo Investment Limited 雅高投資有限公司 ("ArtGo Investment")	BVI 26 September 2011	US$1	100	Investment holding
Indirectly held:				
ArtGo (HK) Investment Group Limited 雅高(香港)投資集團有限公司 ("ArtGo HK")	Hong Kong 3 October 2011	HK$100	100	Investment holding
Huijin Stone (Xiamen) Co., Ltd. 匯金石(廈門)有限公司[(1)] ("Xiamen Huijin Stone")	PRC/Mainland China 19 October 2011	US$90,000,000	100	Retail and wholesale of decorating materials
ArtGo Xinxing (Chongqing) Industrial Co. Ltd. 雅高鑫興(重慶)實業有限公司[(1)] ("ArtGo Chongqing")	PRC/Mainland China 26 May 2016	US$100,000,000	100	Retail and wholesale of decorating materials and chemical products
ArtGo Stone (Jiangxi) Co., Ltd. 雅高石材(江西)有限公司[(1)] ("ArtGo Stone")	PRC/Mainland China 17 September 2013	US$18,000,000	100	Processing and sale of marble stones; and technical service of stone processing

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

1. CORPORATE AND GROUP INFORMATION — *continued*

Name	Place and date of incorporation/registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company %	Principal activities
ArtGo (Shanghai) Industrial Co., Ltd. 雅高(上海)實業有限公司[(1)] ("ArtGo Shanghai")	PRC/Mainland China 26 April 2016	HK$40,000,000	100	Retail and wholesale of decorating materials and chemical products
ArtGo (Jiangsu) Technique Industrial Co., Ltd. 雅高(江蘇)科技實業有限公司[(1)] ("ArtGo Jiangsu")	PRC/Mainland China 19 April 2016	US$50,000,000	100	Retail and wholesale of decorating materials and chemical products
ArtGo (Xuyi) Co., Ltd. 雅高(盱眙)實業有限公司[(1)] ("ArtGo Xuyi")	PRC/Mainland China 1 July 2016	US$159,990,000	100	Cargo handling, warehousing, logistics and minerals processing
ArtGo Junqi (Shanghai) Co., Ltd. 雅高珺奇(上海)實業有限公司[(1)] ("ArtGo Junqi")	PRC/Mainland China 22 November 2011	RMB100,000,000	100	Retail and wholesale of decorating materials and chemical products
Fujian Nan'an ArtMore Stone Co., Ltd. 福建南安之尚石業有限公司[(2)] ("ArtMore Stone")	PRC/Mainland China 24 September 2015	RMB1,000,000	100	Processing and sale of marble stones
Jiangxi Jueshi (Yongfeng) Mining Co., Ltd. 江西省玨石(永豐)礦業有限公司[(2)] ("Jueshi Mining")	PRC/Mainland China 28 December 2009	RMB60,000,000	100	Mining exploration, processing and sale of marble stones
Jiangxi Jueshi (Ji'an) Mining Co., Ltd. 江西省玨石(吉安)礦業有限公司[(2)] ("Ji'an Mining")	PRC/Mainland China 21 January 2012	RMB140,000,000	100	Mining investment, mining planting projects and sale of decorating materials
Shanghai Yunyi Enterprise Management Co., Ltd. 上海韻義企業管理有限公司[(2)] ("Shanghai Yunyi")	PRC/Mainland China 10 October 2012	RMB80,000,000	100	Enterprise management and investment consulting

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

1. CORPORATE AND GROUP INFORMATION — *continued*

Name	Place and date of incorporation/registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company %	Principal activities
Evoke Investment Limited. ("Evoke Investment")	BVI 20 October 2016	HK$10,000	100	Investment holding
Chancellor Investment Holdings Limited ("Chancellor Investment")	BVI 20 December 2016	US$1	100	Investment holding
Guanyang County Guiguan Stone Co., Ltd. 灌陽縣桂灌石材有限責任公司[2] ("Guiguan Stone")	PRC/Mainland China 9 January 2009	RMB5,000,000	51	Mining exploration, processing and sale of marble stones
Guizhou County Dejiang SanXin Stone Co., Ltd. 貴州德江三鑫石材有限公司[2] ("SanXin Stone")	PRC/Mainland China 11 April 2014	RMB20,000,000	80	Mining exploration, processing and sale of marble stones
Shiny Goal Holdings Limited ("Shiny Goal")	BVI 6 December 2016	US$10,000	100	Investment holding
Jiangsu Taifeng Logistics Co., Ltd. 江蘇泰豐物流有限公司[2] ("Jiangsu Taifeng")	PRC/Mainland China 3 June 2011	RMB66,000,000	100	Cargo handling, warehousing, logistics, and sale of mineral products

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

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

During the year, the Group acquired the entire equity interests in Shiny Goal and its subsidiary, Jiangsu Taifeng ("Shiny Group"), from an independent third party. Further details of the acquisition are included in note 34 to the financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2017. A subsidiary is an entity, directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

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

None of the above amendments to IFRSs has had a significant financial effect on these financial statements. Disclosure has been made in note 35 to the financial statements upon the adoption of amendments to IAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs — *continued*

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. During 2017, the Group has performed an assessment of the impact of the adoption of IFRS 9. This expected impacts relate to the classification and measurement and the impairment requirements are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to measure at fair value all financial assets currently held at fair value through profit or loss.

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group has determined that no material further impairment will be provided upon the initial adoption of the standard.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

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.

The presentation and disclosure requirements in IFRS 15 are more detailed than those under the current IAS 18. The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in IFRS 15 are new and the Group has assessed that the impact of some of these disclosure requirements will be significant. In addition, as required by IFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs — *continued*

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. The standard includes two elective recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. 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. As disclosed in note 37 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB11,626,000. Upon adoption of IFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amounts to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates. However, the amendments are available for adoption now.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs — *continued*

Amendments to IAS 40, issued in December 2016, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to the changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The Group expects to adopt the amendments prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

IFRIC 22, issued in December 2016, provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The interpretation is not expected to have any significant impact on the Group's financial statements.

IFRIC 23, issued in June 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations not under common control are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Business combinations and goodwill — *continued*

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

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

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

Fair value measurement

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Fair value measurement — *continued*

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

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

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

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

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

Impairment of non-financial assets

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Related parties

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group which it is a part, provides key management personnel services to the Group or to the parent of the Group.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Property, plant and equipment and depreciation

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

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

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

	Useful lives	Principal annual rates
Buildings	20 years	5%
Plant and machinery	5–20 years	5%–19%
Office equipment	3–10 years	10%–32%
Motor vehicles	5–10 years	10%–19%

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Investment properties

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

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

Intangible assets

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

Mining rights

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

Software

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

Operating leases

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. During the years ended 31 December 2016 and 2017, the Group only held loans and receivables. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

Subsequent measurement

The subsequent measurement of loans and receivables is as follows:

Loans and receivables

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

Derecognition of financial assets

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Derecognition of financial assets — *continued*

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

The subsequent measurement of loans and borrowings is as follows:

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Cash and cash equivalents

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

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

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

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

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

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

Income tax

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Income tax — *continued*

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

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

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

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

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Government grants

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

Revenue recognition

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

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering services, when the services are rendered;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(d) rental income, on a time proportion basis over lease terms.

Share-based payments

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

The cost of equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 31 to the financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Share-based payments — *continued*

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

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

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

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

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

Other employee benefits

Pension schemes

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in Mainland China. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. The contributions are charged to profit or loss as they become payable in accordance with the rules of the defined contribution retirement benefit plans.

Termination benefits

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

Housing fund

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Borrowing costs

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

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

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

Foreign currencies

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

3. SIGNIFICANT ACCOUNTING ESTIMATES

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

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments — Group as lessor

The Group has entered into commercial property leases. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

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

(a) Impairment of receivables

Impairment of receivables is estimated based on an assessment of the recoverability of receivables. The assessment of impairment of receivables involves the use of estimates and judgements. An estimate for doubtful debts is made when collection of the full amount under the invoice is no longer probable, as supported by objective evidence using available contemporary and historical information to evaluate the exposure. Bad debts are written off as incurred. Where the actual outcome or expectation in the future is different from the original estimates, such differences will affect the carrying value of receivables and thus the impairment loss in the period in which such estimate is changed. The impairment provision for trade receivables and prepayments, deposits and other receivables as at 31 December 2017 was RMB11,059,000 (2016: RMB10,581,000). Further details are given in note 21 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

3. SIGNIFICANT ACCOUNTING ESTIMATES — *continued*

Estimation uncertainty — *continued*

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

The Group's operating subsidiaries in Mainland China are subject to PRC CIT. As a result of the fact that certain matters relating to PRC CIT have not been confirmed by the relevant local tax authorities, objective estimates based on currently enacted tax laws, regulations and other related policies are required in determining the provision for PRC CIT to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact the income tax and tax provision in the period in which the differences realise. The carrying amount of PRC CIT payables as at 31 December 2017 was RMB30,970,000 (2016: RMB24,636,000).

(c) *Depreciation of mining right and properties*

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

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

The Group estimates useful lives and related depreciation charges for its items of property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of items of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and actions of its competitors. Management will increase the depreciation charge where useful lives are less than previously estimated, or it will record an impairment provision for technically obsolete assets that have been abandoned. The carrying amount of property, plant and equipment as at 31 December 2017 was RMB130,599,000 (2016: RMB60,866,000). Further details are given in note 13 to the financial statements.

(e) *Deferred tax assets*

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilised based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying amount of deferred tax assets at 31 December 2017 was RMB9,737,000 (2016: RMB9,537,000). Further details are contained in note 29 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

3. SIGNIFICANT ACCOUNTING ESTIMATES — *continued*

Estimation uncertainty — *continued*

(f) *Mine reserves*

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

(g) *Provision for rehabilitation*

Provision for rehabilitation is based on estimates of future expenditures incurred by management to undertake rehabilitation and restoration work which are discounted at a rate of 6.13% (2016: 6.13%) as at 31 December 2017 to reflect the term and nature of the obligation to their present value. Significant estimates and assumptions are made in determining the provision for rehabilitation as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases and changes in the discount rate. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at the end of the reporting period represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognised in the consolidated statement of financial position by adjusting the rehabilitation asset and liability. The carrying amount of provision for rehabilitation as at 31 December 2017 was RMB17,100,000 (2016: RMB13,323,000). Further details are given in note 28 to the financial statements.

(h) *Net realisable value of inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated cost to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience of selling products of a similar nature. Management reassesses these estimates at the end of each reporting period. The carrying amount of inventories as at 31 December 2017 was RMB129,203,000 (2016: RMB179,361,000). Further details are given in note 20 to the financial statements.

(i) *Impairment of non-current assets*

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Definite life non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. The impairment provisions for property, plant and equipment, intangible assets and prepaid land leases payment as at 31 December 2017 were nil (2016: Nil).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

4. 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 logistics services 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 resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance costs as well as head office and corporate expenses are excluded from such measurement.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

4. OPERATING SEGMENT INFORMATION — *continued*

Year ended 31 December 2017

	Marble products RMB'000	Commodity trading RMB'000	Logistics services 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
Reconciliation:				
Interest income				514
Foreign exchange gain, net				8,894
Financial costs				(18,963)
Corporate and other unallocated expenses				(211)
Profit before tax				16,469
Segment assets	2,138,867	412,356	112,311	2,663,534
Reconciliation:				
Deferred tax assets				9,737
Pledged deposits				1,129
Cash and cash equivalents				29,356
Corporate and other unallocated assets				129,214
Total assets				2,832,970
Segment liabilities	696,571	31,108	1,313	728,992
Reconciliation:				
Tax payable				30,970
Deferred tax liabilities				12,226
Total liabilities				772,188
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*	324,541	–	115,568	440,109

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

4. OPERATING SEGMENT INFORMATION — *continued*

Year ended 31 December 2016

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

4. OPERATING SEGMENT INFORMATION — *continued*

Geographical information

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

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

* 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 **RMB'000**	2016 RMB'000
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

5. REVENUE

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

5. REVENUE — *continued*

Entity-wide disclosures

Information about products

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

	2017		2016	
	RMB'000	%	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 services	933	–	–	–
Commodity trading	1,119,648	88	942,257	89
	1,271,058	100	1,059,457	100

6. OTHER INCOME AND GAINS

An analysis of other income and gains is as follows:

	2017	2016
	RMB'000	RMB'000
Foreign exchange gain, net	8,894	–
Rental income	7,662	3,709
Labour outsourcing service income	4,487	–
Compensation for breach of contracts	3,232	1,969
Bank interest income	514	9,346
Deferred income released to profit or loss (note 27)	210	210
Government grants*	10	246
Miscellaneous	130	215
Total other income and gains	25,139	15,695

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

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2017	2016
	RMB'000	RMB'000
Interest on bank loans	11,575	10,549
Interest on other borrowings	6,182	–
Unwinding of a discount for rehabilitation (note 28)	1,041	830
Interest on bills receivable discounted (note 21)	165	11,924
Interest on payables relating to the purchase of mining rights	–	1,014
	18,963	24,317

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

8. PROFIT BEFORE TAX

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

	Notes	2017 RMB'000	2016 RMB'000
Cost of inventories sold		**1,195,094**	961,235
Employee benefit expense (including directors' and chief executive's remuneration set out in note 9):			
Wages and salaries		**24,239**	23,977
Equity-settled share option expense	31	**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		**27,482**	23,190
Depreciation of items of property, plant and equipment	13	**10,518**	9,946
Depreciation of investment properties	14	**4,067**	3,389
Amortisation of prepaid land lease payments	15	**1,821**	266
Amortisation of intangible assets	16	**12,050**	385
Depreciation and amortisation expenses		**28,456**	13,986
Minimum lease payments under operating leases:			
— Office		**7,215**	6,715
— Warehouses		**842**	4,307
— Parcels of land located at Shangsheng Village	22(a)	**819**	819
Auditors' remuneration		**2,900**	2,700
Foreign exchange (gain)/loss, net		**(8,894)**	3,652
Impairment of trade receivables	21	**478**	5,099
Loss on disposal and write-off of items of property, plant and equipment		**–**	4,041
Rental income	6	**(7,662)**	(3,709)
Bank interest income	6	**(514)**	(9,346)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

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

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

	2017 RMB'000	2016 RMB'000
Fees	562	562
Other emoluments:		
Salaries, allowances and benefits in kind	1,162	1,640
Equity-settled share option expense	–	(811)
Pension scheme contributions	88	46
	1,250	875
	1,812	1,437

(a) Independent non-executive directors

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

	2017 RMB'000	2016 RMB'000
Mr. Liu Jianhua[(1)]	65	134
Mr. Wang Hengzhong[(2)]	60	179
Mr. Hui Yat On	145	76
Ms. Lung Yuet Kwan[(3)]	101	–
Ms. Zhang Xiaohan[(4)]	61	–
Mr. Jin Sheng	–	106
	432	495

(1) Mr. Liu Jianhua tendered his resignation as an independent non-executive director, a member of the audit committee and a member of the nomination committee, with effect from 30 June 2017.

(2) Mr. Wang Hengzhong has tendered his resignation as an independent non-executive director, the chairman of the audit committee and a member of the remuneration committee of the Board, with effect from 1 June 2017.

(3) Ms. Lung Yuet Kwan has been appointed as an independent non-executive director, the chairman of the audit committee and a member of the remuneration committee, with effect from 1 June 2017.

(4) Ms. Zhang Xiaohan has been appointed as an independent non-executive director, a member of the audit committee and the nomination committee of the Board, with effect from 1 June 2017.

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

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

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

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Equity-settled share option expense	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2017					
Executive directors:					
Ms. Wu Jing	–	521	4	–	525
Mr. Gu Weiwen	–	144	61	–	205
Mr. Leung Ka Kit	–	312	4	–	316
Mr. Zhang Jian	–	121	10	–	131
Mr. Li Dingcheng[1]	–	64	9	–	73
	–	1,162	88	–	1,250
Non-executive director:					
Mr. Gu Zengcai	130	–	–	–	130
	130	1,162	88	–	1,380
2016					
Executive directors:					
Ms. Wu Jing	–	364	1	–	365
Mr. Gu Weiwen	–	371	1	–	372
Mr. Leung Ka Kit	–	176	–	–	176
Mr. Zhang Jian	–	259	2	–	261
Mr. Li Dingcheng	–	251	38	–	289
Mr. Liu Chuanjia	–	132	1	–	133
Mr. Han Yingfeng	–	87	3	(811)	(721)
	–	1,640	46	(811)	875
Non-executive director:					
Mr. Gu Zengcai	67	–	–	–	67
	67	1,640	46	(811)	942

[1] Mr. Li Dingcheng has tendered his resignation as an executive Director, with effect from 22 December 2017.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2016: Nil).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

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

(c) Five highest paid employees

The five highest paid employees during the year included two directors (2016: one director), details of whose remuneration are set out in note 9(b) above. Details of the remuneration for the year of the remaining three (2016: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2017	2016
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**914**	1,488
Equity-settled share option expense	**142**	446
Pension scheme contributions	**36**	65
	1,092	1,999

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

	Number of employees	
	2017	2016
Nil to HK$1,000,000	**3**	3
HK$1,000,001 to HK$2,000,000	**–**	1
	3	4

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

10. INCOME TAX

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

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

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

The major components of income tax expense were as follows:

	2017 RMB'000	2016 RMB'000
Current — Mainland China		
Charge for the year	8,903	12,104
Deferred (note 29)	(243)	(1,909)
	8,660	10,195

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 RMB'000	2016 RMB'000
Profit before tax	16,469	9,649
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 (note 29)	729	3,893
Income tax expense	8,660	10,195

11. 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).

12. 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Office equipment	Motor vehicles	Mining infrastructure	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2017							
Cost:							
At 1 January 2017	19,431	26,157	7,684	11,657	13,578	5,305	83,812
Additions	1,286	11,015	983	626	2,736	16,116	32,762
Acquisition of subsidiaries (note 34)	6,665	41,610	790	214	–	1,889	51,168
At 31 December 2017	27,382	78,782	9,457	12,497	16,314	23,310	167,742
Accumulated depreciation:							
At 1 January 2017	3,107	12,585	3,933	3,031	290	–	22,946
Acquisition of subsidiaries (note 34)	381	2,526	644	128	–	–	3,679
Provided for the year (note 8)	2,478	4,905	1,631	1,354	150	–	10,518
At 31 December 2017	5,966	20,016	6,208	4,513	440	–	37,143
Net carrying amount:							
At 1 January 2017	16,324	13,572	3,751	8,626	13,288	5,305	60,866
At 31 December 2017	21,416	58,766	3,249	7,984	15,874	23,310	130,599
31 December 2016							
Cost:							
At 1 January 2016	16,070	28,407	13,000	6,172	13,578	5,192	82,419
Additions	3,361	9	1,457	5,235	–	113	10,175
Acquisition of subsidiaries	–	–	–	1,201	–	–	1,201
Disposals	–	(2,259)	(6,773)	(951)	–	–	(9,983)
At 31 December 2016	19,431	26,157	7,684	11,657	13,578	5,305	83,812
Accumulated depreciation:							
At 1 January 2016	1,251	9,830	3,924	1,813	255	–	17,073
Acquisition of subsidiaries	–	–	–	770	–	–	770
Provided for the year (note 8)	1,856	3,635	3,584	836	35	–	9,946
Disposals	–	(880)	(3,575)	(388)	–	–	(4,843)
At 31 December 2016	3,107	12,585	3,933	3,031	290	–	22,946
Net carrying amount:							
At 1 January 2016	14,819	18,577	9,076	4,359	13,323	5,192	65,346
At 31 December 2016	16,324	13,572	3,751	8,626	13,288	5,305	60,866

As at 31 December 2017, the Group's property, plant and equipment with a carrying amount of RMB14,359,000 (2016: Nil) was pledged as security for certain other borrowings granted to the Group (note 26(a)).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

14. 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 8)	**(4,067)**	(3,389)
Carrying amount at 31 December	**94,334**	98,401

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

As at 31 December 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 the occupancy rate of the respective properties. The discount rates used have been adjusted for the quality and location of the buildings and the tenant credit quality. The fair value of the investment properties measured at the end of the reporting period is categorised into Level 3 valuations: Fair value measured using significant unobservable inputs, as defined in IFRS 13 *Fair Value Measurement*.

15. PREPAID LAND LEASE PAYMENTS

	2017 RMB'000	2016 RMB'000
Carrying amount at 1 January	**13,537**	12,768
Acquisition of subsidiaries (note 34)	**64,400**	1,035
Addition	**291,779**	–
Amortisation during the year (note 8)	**(1,821)**	(266)
Carrying amount at 31 December	**367,895**	13,537
Portion classified as current assets (note 22)	**(8,939)**	(266)
Non-current portion	**358,956**	13,271

As at 31 December 2017, the Group's prepaid land lease payments with a carrying amount of RMB306,104,000 (2016: RMB13,537,000) was pledged as security for certain bank and other borrowings granted to the Group (note 26(a)).

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16. 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 8)	**(11,840)**	**(210)**	**(12,050)**
At 31 December 2017	**1,009,368**	**1,301**	**1,010,669**
Analysed as:			
Cost	**1,026,703**	**2,006**	**1,028,709**
Accumulated amortisation	**(17,335)**	**(705)**	**(18,040)**
Net carrying amount	**1,009,368**	**1,301**	**1,010,669**
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 8)	(170)	(215)	(385)
At 31 December 2016	1,021,208	1,511	1,022,719
Analysed as:			
Cost	1,026,703	2,006	1,028,709
Accumulated amortisation	(5,495)	(495)	(5,990)
Net carrying amount	1,021,208	1,511	1,022,719

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 26(a)).

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17. GOODWILL

	2017 RMB'000
Carrying amount at 1 January 2017	–
Addition (note 34)	19,179
Carrying amount at 31 December 2017	19,179

Goodwill acquired through business combinations is allocated to the Jiangsu Taifeng cash-generating unit for impairment testing.

The recoverable amount of the Jiangsu Taifeng cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the expected gross margins in the future years, increased for expected efficiency improvements, and expected market development.

Discount rates — The discount rates used are before tax and reflect specific risks relating to the relevant units. The discount rate applied to the cash flow projection is 13% (2016: not applicable).

Growth rate — The growth rate used to extrapolate the cash flows beyond the five-year period is 3% (2016: not applicable), which is based on the estimated growth rate of the business unit, taking into account the industry growth rate, past experience and the medium or long term growth target.

The values assigned to the key assumption on discount rates are consistent with external information sources. In the opinion of the Company's directors, any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the cash generating unit's carrying amount to exceed its recoverable amount as at 31 December 2017.

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18. INVESTMENTS IN ASSOCIATES

	2017 RMB'000	2016 RMB'000
Share of net assets	**375,399**	–

Particulars of the material associate of the Group, which was established and operates in Mainland China, are as follows:

Name	Percentage of ownership interest attributable to the Group	Principal activities
Shangri-La Stone	49	Mining exploration, processing and sale of marble stones

On 31 May 2017, the Group acquired the 49% equity interest in Shangri-La Stone through the acquisition of Techluxe International Holding Limited ("Techluxe") at a total consideration of RMB280,000,000, which was satisfied by cash. Upon completion of the acquisition, the Group can exert significant influence over Shangri-La Stone, and accordingly Shangri-La Stone has been treated as the Group's associate and accounted for using the equity method from the date when it became an associate of the Group.

The Group's shareholding in Shangri-La Stone is held through a subsidiary of the Company.

The following table illustrates the summarised financial information in respect of Shangri-La Stone, reconciled to the carrying amount in the consolidated financial statements:

	2017 RMB'000
Current assets	**373**
Non-current assets	**571,056**
Net assets	**571,429**
Reconciliation to the Group's interest in the associate:	
Proportion of the Group's ownership	**49%**
Group's share of net assets of the associate	**280,000**
Carrying amount of the investment	**280,000**

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18. INVESTMENTS IN ASSOCIATES — *continued*

	Seven-month period from the acquisition date to 31 December 2017 RMB'000
Revenue	–
Profit and total comprehensive income for the period	–
Dividend received	–

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2017 RMB'000
Share of the associates' loss, and total comprehensive income for the year	(151)
Aggregate carrying amount of the Group's investments in the associates	95,399

19. 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
		156,666	480,561

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

(b) The balance as at 31 December 2016 mainly represented a 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, and accordingly the prepayment has been transferred to prepaid land lease payments.

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20. 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
	129,203	179,361

21. TRADE RECEIVABLES

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

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
	433,109	23,159

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21. TRADE RECEIVABLES — *continued*

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

	2017 **RMB'000**	2016 RMB'000
At beginning of year	**10,581**	5,482
Impairment losses recognised (note 8)	**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 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.

NOTES TO THE FINANCIAL STATEMENTS

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21. TRADE RECEIVABLES — *continued*

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

	2017 RMB'000	2016 RMB'000
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.

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 7) on discounted bills.

NOTES TO THE FINANCIAL STATEMENTS

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22. 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 (note 15)		**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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

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

	2017 RMB'000	2016 RMB'000
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 (note 26(a))	(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 RMB'000	2016 RMB'000
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.

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24. TRADE AND BILLS PAYABLES

	2017 RMB'000	2016 RMB'000
Trade payables	**64,134**	10,350
Bills payable	**132,157**	142,800
	196,291	153,150

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
	196,291	153,150

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.

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25. OTHER PAYABLES AND ACCRUALS

	Notes	2017 RMB'000	2016 RMB'000
Current portion:			
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
		111,428	80,363

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.

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26. 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
		151,530	168,382
Effective interest rate per annum (%)		**5.66–7.13**	5.66–7.00
Other borrowings:			
Secured and guaranteed	(a)	**247,373**	34,300
Effective interest rate per annum (%)		**6.52–9.00**	6.53
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		**4,500**	–
		151,530	168,382
Other borrowings repayable:			
Within one year		**27,373**	34,300
In the second year		**50,000**	–
In the third to fifth years, inclusive		**170,000**	–
		247,373	34,300
Total bank and other borrowings		**398,903**	202,682
Portion classified as current liabilities		**(174,403)**	(197,682)
Non-current portion		**224,500**	5,000

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26. 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
Secured by:			
Property, plant and equipment	13	**14,359**	–
Prepaid land lease payments	15	**306,104**	13,537
Mining rights to Zhangxi and Lingnan Mines	16	**116,627**	116,627
Time deposits	23	**1,129**	1,400
		438,219	131,564

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.

27. DEFERRED INCOME

	RMB'000
Government grant	
At 1 January 2016	5,690
Released to profit or loss (note 6)	(210)
At 31 December 2016 and 1 January 2017	5,480
Released to profit or loss (note 6)	(210)
At 31 December 2017	5,270

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

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28. PROVISION FOR REHABILITATION

	2017 RMB'000	2016 RMB'000
At the beginning of year	**13,323**	12,493
Addition	**2,736**	–
Unwinding of a discount (note 7)	**1,041**	830
At the end of year	**17,100**	13,323

29. DEFERRED TAX

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

Deferred tax assets

	Losses available for offsetting against future taxable profits RMB'000	Provision for rehabilitation RMB'000	Depreciation over book value of fixed assets RMB'000	Accrued expenses RMB'000	Unrealised profits from inter-company transactions RMB'000	Impairment of trade receivables RMB'000	Total RMB'000
At 1 January 2016	–	507	84	4,749	2,240	1,370	8,950
Deferred tax assets credited/ (charged) to profit or loss during the year (note 10)	886	207	128	1,271	(1,410)	1,275	2,357
At 31 December 2016 and 1 January 2017	886	714	212	6,020	830	2,645	11,307
Deferred tax assets credited/ (charged) to profit or loss during the year (note 10)	(298)	260	235	139	298	120	754
At 31 December 2017	588	974	447	6,159	1,128	2,765	12,061

The Group has tax losses arising in Mainland China of RMB18,486,000 (2016: RMB15,570,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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29. DEFERRED TAX — *continued*

Deferred tax liabilities

	Fair value adjustment arising from business combination	Excess book value of mining rights over tax amortisation	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2016	2,322	1,229	3,551
Deferred tax charged/(credited) to profit or loss during the year (note 10)	(93)	541	448
At 31 December 2016 and 1 January 2017	2,229	1,770	3,999
Deferred tax liabilities arising from business combination (note 34)	10,040	–	10,040
Deferred tax charged/(credited) to profit or loss during the year (note 10)	(48)	559	511
At 31 December 2017	12,221	2,329	14,550

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

	2017	2016
	RMB'000	RMB'000
Gross deferred tax assets	**12,061**	11,307
Gross deferred tax liabilities	**(2,324)**	(1,770)
Net deferred tax assets	**9,737**	9,537
Gross deferred tax assets	**–**	–
Gross deferred tax liabilities	**12,226**	2,229
Net deferred tax liabilities	**12,226**	2,229

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29. DEFERRED TAX — *continued*

Deferred tax liabilities — *continued*

Notes:

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

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

At 31 December 2017, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors of the Company, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

The aggregate amount of unremitted earnings associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB226,555,000 (31 December 2016: RMB197,800,000).

30. SHARE CAPITAL

Shares

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

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30. SHARE CAPITAL — *continued*

Shares — *continued*

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	175,740,885	1,492
As at 31 December 2017	2,246,374,885	18,349

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 interests in Shiny Goal (note 34). 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.

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31. SHARE OPTION SCHEMES

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

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

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

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**
1,066,669	2.39	From 30 June 2017 to 30 June 2018

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31. 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
2,133,336		

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

32. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 93 of the financial statements.

(a) Share premium

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

(b) Statutory surplus reserve

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

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

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

(c) Safety fund surplus reserve

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

(d) Contributed surplus

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

(e) Share option reserve

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

NOTES TO THE FINANCIAL STATEMENTS

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33. PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiary that has material non-controlling interests are set out below:

	2017	2016
	RMB'000	RMB'000
Percentage of equity interest held by non-controlling interests:		
Guiguan Stone	**49%**	49%
Total comprehensive loss for the year allocated to non-controlling interests:		
Guiguan Stone	**641**	–
Accumulated balances of non-controlling interests at the reporting date:		
Guiguan Stone	**257,414**	258,055

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

	Guiguan Stone
2017	**RMB'000**
Revenue	49,363
Total expenses	50,671
Loss and total comprehensive loss for the year	(1,308)
Current assets	23,861
Non-current assets	571,931
Current liabilities	(63,062)
Non-current liabilities	(7,395)
Net cash flows from operating activities	4,911
Net cash flows used in investing activities	(35,565)
Net cash flows from financing activities	30,602
Net decrease in cash and cash equivalents	(52)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

34. 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 Jiangsu Taifeng, 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 at the issue price of HK$0.81 per share 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.

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

	Fair value recognised on acquisition RMB'000
Cash and bank balances	69
Trade receivables	648
Other receivables	27
Property, plant and equipment (note 13)	47,489
Prepaid land lease payments (note 15)	64,400
Other payables and accruals	(957)
Tax payables	(24)
Deferred tax liability (note 29)	(10,040)
Total identifiable net assets at fair value	101,612
Goodwill on acquisition	19,179
Satisfied by shares	120,791

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

34. BUSINESS COMBINATION — *continued*

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

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

Since the acquisition, Shiny Group 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.

Acquisition of subsidiaries in 2016:

(a) Acquisition of Shanghai Yunyi

On 18 March 2016, the Group acquired 100% equity interests in Shanghai Yunyi from Mr. Wang Jiangze, an independent individual and the owner of Shanghai Yunyi, which is principally engaged in property investment. The purchase consideration for the acquisition was in the form of the allotment and issue of 260,000,000 ordinary shares by the Company at HK$1.02 per share at the date of acquisition, 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

34. BUSINESS COMBINATION — *continued*

(b) Acquisition of Chancellor Investment

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

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

(c) Acquisition of Evoke Investment

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Bank and other borrowings	Amount due to a shareholder
	RMB'000	RMB'000
At 1 January 2017	202,682	–
Changes from financing cash flows	196,221	2,898
Non-cash changes:		
Foreign exchange movement	–	–
Interest expense	–	–
At 31 December 2017	398,903	2,898
At 1 January 2016	127,600	–
Changes from financing cash flows	75,082	–
Non-cash changes:		
Foreign exchange movement	–	–
Interest expense	–	–
At 31 December 2016	202,682	–

36. CONTINGENT LIABILITIES

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

37. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

At 31 December 2017, the Group had total future minimum lease receivables under non-cancellable operating lease with its tenants falling due as follows:

	2017 RMB'000	2016 RMB'000
Within one year	7,543	7,543
In the second to fifth years, inclusive	41,511	39,942
Over five years	23,432	32,963
	72,486	80,448

(b) As lessee

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

As at 31 December 2017 and 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 RMB'000	2016 RMB'000
Within one year	6,713	11,326
In the second to fifth years, inclusive	4,913	17,090
	11,626	28,416

38. COMMITMENTS

In addition to the operating lease commitments detailed in note 37 above, the Group had the following capital commitments at the end of the reporting period:

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

39. RELATED PARTY TRANSACTIONS

(a) As at 31 December 2017, the Group had obtained bank and other borrowings aggregated to RMB302,325,000 (2016: RMB90,300,000), which were guaranteed by Ms. Wu Jing and Mr. Leung Ka Kit with nil consideration.

(b) Outstanding balances with a shareholder

The Group had an outstanding balance due to Ms. Wu Jing of RMB2,898,000 (2016: Nil) as at the end of the reporting period. The balance is unsecured, interest-free and has no fixed terms of repayment.

(c) Compensation of key management personnel of the Group

	2017	2016
	RMB'000	RMB'000
Basic salaries and other benefits	**3,672**	4,520
Equity-settled share option expense	**142**	(2,528)
Pension scheme contributions	**153**	166
Total compensation paid to key management personnel	**3,967**	2,158

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

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

At the year end of 2017 and 2016, there were no financial assets and liabilities carried at fair value in the consolidated statements of financial position of the Group.

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

Credit risk

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

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

As disclosed in note 4, the Group sells most of the products to a small number of customers. As a result, it faces a high level of concentration of credit risk. The Group manages this risk by offering a three to four month credit term to its customers for sale of self-produced products given the fluctuating market conditions and a three-month credit term to its trading customers. In addition, the Group's exposure to credit risk is also influenced by the individual characteristics of each customer and default risk of the industry in which customers operate. In the trading sector, the Group has relatively weak bargaining power regarding sales price and terms of payment as its customers are generally large operators. During the year, the Group generated its revenue mainly from the sales of commodities to the trading customers that purchase the Group's products and resell them to other customers. The Group also generated revenue from sales of self-produced products to other customers. In this regard, the Group is exposed to the concentration of credit risk in the marble and trading industries. The Group maintains strict control over its outstanding receivables and senior management regularly reviews the overdue balances, in addition, the finance department and the sales department confirm the balance of trade receivables every month with customers. In respect of the credit quality of customers, the Group has adopted and will continue to implement a customer appraisal program to review its receivables, assess each customer's credibility and ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that credit risk is significantly reduced.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

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

Foreign currency risk

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

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

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

	2017	2016
	RMB'000	RMB'000
Increase/(decrease) in profit before tax:		
If RMB weakens against US$	**72**	87
If RMB strengthens against US$	**(72)**	(87)
If RMB weakens against HK$	**157**	2,137
If RMB strengthens against HK$	**(157)**	(2,137)

Liquidity risk

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

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

Liquidity risk — *continued*

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

	31 December 2017				
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 4 years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	67,513	25,593	104,689	257,035	454,830
Trade and bills payables	113,791	82,500	–	–	196,291
Other payables and accruals	29,760	6,555	22,372	–	58,687
	211,064	114,648	127,061	257,035	709,808

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

Interest rate risk

The Group's exposure to interest rate risk relates primarily to the Group's bank deposits and interest-bearing bank and other borrowings. The interest rates and terms of repayment of interest-bearing loans are disclosed in note 26.

Capital management

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	1,571,583	1,293,261
CURRENT ASSETS		
Prepayments, deposits and other receivables	245	50,177
Cash at banks	2	8
Total current assets	247	50,185
CURRENT LIABILITIES		
Other payables and accruals	6,672	2,640
Due to subsidiaries	70,041	70,095
Total current liabilities	76,713	72,735
NET CURRENT LIABILITIES	(76,466)	(22,550)
Net assets	1,495,117	1,270,711
EQUITY		
Issued capital	18,349	15,482
Reserves (note 32)	1,476,768	1,255,229
Total equity	1,495,117	1,270,711

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

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

Note:

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

	Notes	Share premium account RMB'000	Capital contribution reserve RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2016		643,032	223,876	6,258	(44,027)	829,139
Issue of new shares		432,867	–	–	–	432,867
Equity-settled share option arrangements	31	–	–	(4,420)	–	(4,420)
Total comprehensive loss for the year		–	–	–	(2,357)	(2,357)
Transfer of share option reserve upon the expiry of share options		–	–	(175)	175	–
At 31 December 2016 and 1 January 2017		1,075,899	223,876	1,663	(46,209)	1,255,229
Issue of new shares		253,394	–	–	–	253,394
Equity-settled share option arrangements	31	–	–	142	–	142
Total comprehensive loss for the year		–	–	–	(31,997)	(31,997)
Transfer of share option reserve upon the expiry of share options		–	–	(805)	805	–
At 31 December 2017		1,329,293	223,876	1,000	(77,401)	1,476,768

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

43. EVENT AFTER THE REPORTING PERIOD

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.

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).

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2018.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results, assets and liabilities of the Group for the years ended 31 December 2013, 2014, 2015 and 2016 and 2017, as extracted from the published audited financial statements, is set out below:

RESULTS

	Year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**1,271,058**	1,059,457	332,217	344,339	139,775
Cost of sales	**(1,195,094)**	(961,235)	(154,448)	(127,511)	(56,597)
Gross profit	**75,964**	98,222	177,769	216,828	83,178
Other income and gains	**25,139**	15,695	23,632	19,905	4,298
Selling and distribution expenses	**(11,835)**	(24,683)	(34,861)	(27,541)	(24,500)
Administrative expenses	**(46,155)**	(35,407)	(42,715)	(43,018)	(45,564)
Other expenses	**(7,530)**	(19,861)	(6,586)	(8,259)	(593)
Finance cost	**(18,963)**	(24,317)	(16,606)	(13,698)	(4,501)
Share of losses of associates	**(151)**	–	–	–	–
PROFIT/(LOSS) BEFORE TAX	**16,469**	9,649	100,633	144,217	12,318
Income tax expense	**(8,660)**	(10,195)	(25,226)	(41,885)	(12,720)
PROFIT/(LOSS) AND TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**7,809**	(546)	75,407	102,332	(402)
ATTRIBUTABLE TO:					
Owners of the Company	**8,450**	(546)	75,407	102,332	(402)
Non-controlling interests	**(641)**	–	–	–	–
	7,809	(546)	75,407	102,332	(402)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY:					
Basic and diluted (RMB cent per share)	**0.4**	0.00	6.00	8.00	(0.04)

SUMMARY OF FINANCIAL INFORMATION

	As at 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	**2,171,240**	1,701,978	296,763	164,640	142,271
Current assets	**661,730**	576,455	1,189,027	1,174,974	970,656
Non-current liabilities	**259,096**	26,032	29,805	39,386	41,002
Current liabilities	**513,092**	455,831	410,361	333,003	210,865
Total equity/(deficit)	**2,060,782**	1,796,570	1,045,624	967,225	861,060
Non-controlling interests	**317,414**	318,055	–	–	–
Equity/(deficit) attributable to owners of the Company	**1,743,368**	1,478,515	1,045,624	967,225	861,060