雅高控股
ARTGO HOLDINGS

ARTGO HOLDINGS LIMITED
雅高控股有限公司

(incorporated in the Cayman Islands with limited liability)

STOCK CODE: 3313

2018
ANNUAL REPORT

CONTENTS

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

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PRINCIPAL BANKERS

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STOCK CODE

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WEBSITE

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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 2018.

In 2018, the US-China trade disputes cast a shadow over the global economy leading to a volatile market wordwide. Although China's annual GDP growth in 2018 of 6.6% matched the general expectations and marginally above the target of 6.5%, it hit the slowest pace since 1990 and indicated the momentum of growth has been weakened which created a negative sentiment to the domestic consumption and investment growth. The Group's marble business was inevitably affected under such economic climate as end-users and investors tended to be more cautious in their spending on construction materials both for household decoration and construction projects. Coupled with the strategy for reducing our aged inventory level for paving the way for the forthcoming products to be processed in our new production plant in Jiangxi Province in the PRC, the revenue from sale of marble products recorded a drop of approximately 43% from last year. Under a cautious wait-and-see atmosphere surrounding the business world, our business counterparties and customers of the commodities trading segment and logistics services segment inclined to adopt a more conservative business approach in carrying out their trades. The consequence of such approach was creating a chain-reaction effect impacting the overall performance of our commodities trading and logistics services business in the year which was reflected in the drop in their respective revenue in the year.

Although we are yet to work through the difficult moments, we observed that the overall domestic economy of the PRC continued to undergo structural restructuring and reform by which the PRC government was adjusting its macroeconomic policies by implementing different economy stimulation measures such as tax-cut for the purpose of improving enterprises profit margin as well as promoting nationwide consumptions. Together with the decentralization of execution policy allowing local government in adjusting its real estate administration policy in according to the local market condition, we believe these measures will have a positive impact on the market sentiment and hence may, to certain extent, restore the general consumption momentum and boost the real-estate investment. We consider that the Group will be benefit from the above move as a flourishing domestic consumption, healthy real-estate investment and fair international trade environment is a foundation for all our business segments. With this belief in mind, we continued to grasp opportunity in investing in mining assets in order to sustain the Group's business development in long-run. During the year, we acquired the 80% interest in Lichuan Mine, the products from which further enlarge the variety of stone products in the Group's existing product fleet and to enhance its competitiveness in the stone market in future. On the other hand, the Group's mining assets investment also came across its own difficulties. Certain mining licenses in Guangxi Province and Jiangxi Province in the PRC were unable to be renewed under the existing administrative measures used by the local governments for the purpose of mining resources integration and mine location requirements. Notwithstanding the rejection of the license renewals by the local governments, honest and constructive discussions are still on-going between the Group and the local government for any feasible business arrangements which may be beneficial to the Group.

Looking forward into 2019, we will continue to keep an eye on the US-China trade disputes and the results of a series of the economic boosting measures rolled out by the PRC government. It is still premature to draw a conclusion on the effectiveness of government measures and the future development of the trade disputes and hence we remain cautiously optimistic. Back to our own marble business, we will act more proactively in building up strong bonds with real estate developers directly in a way that we aim to offer solutions to the developers' projects with a variety of stone products. We will continue in adopting a strategy of controlling the sources of raw material and producing the best quality of the final products. We shall strive to achieve this strategy by acquiring quality mines resources and produce quality final products from our own production plant. We will also grasp any opportunities in diversifying our business cautiously when such opportunities evolved in order to bring more fruitful returns for our shareholders.

Finally, on behalf of the board, I would like to take this opportunity to express sincere gratitude to all our staff for their contribution and dedication, and to our shareholders, investors, partners and clients for their trust and continuing support in such a challenging year.

WU Jing
Chairman and Executive Director

Hong Kong, 29 March 2019

BUSINESS REVIEW

Marble and Mining Business

New Production Plant

During the year, the construction of the new production plant in Jiangxi Province remained the focal point in the Group's marble and mining business. With a construction area of approximately 60,000 square metres, the plant will accommodate research and development facilities, offices premises and other supplemental facilities. Large scale stone saw machines and slabs grinding machines were installed in the year. It is expected that upon full operation of the plant, it can serve as the regional production hub for the Group's mines apart from acting as the stone processing centre for Yongfeng Mine. In a longer run, the plant has extra production capacity for providing processing services to other mines in the region. The completion time schedule has experienced some delay from the original plan due to the poor weather in the local area in the second half of the year affecting the overall construction work progress. The Group expects to commence its pre-production run for the plant before end of the first half year of 2019 and commence mass production thereafter. In the meantime, the Group continued to reduce its inventory level since early 2018 for aged inventories in the anticipation of the shortened marble product processing cycle from excavation of marble blocks to polished slabs in the near future benefited from the proximity of the Yongfeng Mine and the plant. The reduction of inventory level of marble slabs leads to a direct cost-saving in renting and maintaining storage facilities in its sales hub at Shuitou in Fujian Province.

Lichuan Mine

The Group has been implementing business strategies to expand its business through broadening its product range and services to meet the market needs and to meet the variety of customers' preferences. To achieve such strategy, it has been continuously sourcing mines with limestone resources from which high-quality unique pattern and colored limestone could be produced. During the year, the Group successfully acquired 80% interest in Lichuan Mine. The stone produced from Lichuan Mine has unique wooden grains bearing Oracle-like patterns. The acquisition enables the Group to further enlarge the variety of stone product in its existing fleet and to enhance its competitiveness in the stone market, thus provides an opportunity to the Group to increase its profitability and to expand its market share.

Guanyang Mines

The Group, through its subsidiaries and associate company, has interests in different project companies which own the mining rights of a number of limestone mines in the PRC. The mining licenses of such mining rights have a valid period of 3 to 5 years and will be eligible for renewal upon expiry under normal circumstances. Among the project companies, the Group was interested in 51% of the mining rights of both Guiguan Mine and Wenshi Mine (collectively, the "Guanyang Mines") both are located in Guanyang County of Guangxi Province in the PRC. As stated in the Company's 2018 Interim Report, it is noted that (i) the mining licenses of the Guanyang Mines were expired in 2018; (ii) the renewal application of the mining license of the Wenshi Mine was made by the management of the Group's subsidiary to the relevant authorities before its expiration; and (iii) it was expected that there was no legal barrier for the Group to renew the mining license of the Guiguan Mine after assessment by the management of the Group.

Based on the experience of the management of the Group and after assessment of the Group's competency, it was expected that the Group will be eligible for the mining rights renewal under normal circumstances. However, on 25 March 2019, the Group received a notification (the "Notice") from the Land and Resources Bureau (the "Guanyang Bureau") of Guanyang County in Guangxi Province that the Bureau has rejected the applications (the "Applications") made by the Group for the renewal of the mining licenses of Guanyang Mines originally held by Guanyang County Guiguan Stone Co., Ltd. (灌陽縣桂灌石材有限責任公司) ("Guiguan Stone"), a non-wholly owned subsidiary of the Company. As further set out in the Notice, the Guanyang Bureau rejected the Applications for the reasons that it is the intention of the local government to integrate the mining resources located in Guanyang County for better utilization and development of local natural resources. Based on this, it is advised by the management of Guiguan Stone that the Group is currently in the process of negotiating with the local government for any feasible business arrangements, such as operating rights, under which the Group could play an active and crucial role in the local stone production chain. Further announcement(s) will be published by the Company, where appropriate, should there be any arrangements being affirmed. The Group recognizes an impairment of approximately RMB518 million in relation to the aforesaid mining rights held by the Group. The loss arising from the aforesaid impairment attributable to owners of the Company amounted to approximately RMB264 million.

Lingnan Mine and Zhangxi Mine

The Group also owned the interests in both Lingnan Mine and Zhangxi Mine both located in Yongfeng County of Jiangxi Province in the PRC. The Group was informed by Yongfeng County Natural Resources Bureau (the "Yongfeng Bureau") on 27 February 2019 that the mining area of Lingnan Mine overlaps with the latest intuitive visual range of the Changning Expressway and hence no longer comply with the Yongfeng Bureau's existing mining rights administration requirements. Accordingly, the Yongfeng Bureau rejected the Group's application for the renewal of Lingnan Mine's mining license. In spite of this, after considering the rejection of the said renewal, the Yongfeng Bureau has agreed to expand the existing mining area of the Zhangxi Mine, which is also under Yongfeng Bureau's administration, as kind of follow-up arrangement, subject to further application and approval as required to be obtained from the relevant authorities.

Based on the latest prospecting, the additional marble resources of the expanded Zhangxi Mine is higher than the original marble resources of the Lingnan Mine. As such, the Group considers that the rejection of the renewal of the Lingnan Mine did not have any significant financial impact to the Group as a whole. Further announcement(s) will be published by the Company where appropriate.

Commodities Trading Business

The commodities trading market has cool down in the year following the slow-down of the overall economic growth in PRC as well as the stringent control over the local commodities market. Although the performance of the Group's commodities trading activities was rebounded to certain extent in the second half of the year, the overall revenue generated from this business segment for the year has recorded a drop of approximately 60% as compared to 2017. With the persistent unresolved US-China trade disputes, it casts an uncertainty to the overall economy which may affect the performance of this business segment. The Group will continue in carrying out the commodities trading business in a cautious manner and adjust the related business plan in according to the changing business environment.

Logistics Services Business

The Group's logistics services business was carried out in Jiangsu Province, the PRC. During the year, it provided logistics services to customers for a variety of products such as storage of windmill blades, construction materials and bulk blocks of paper rolls etc. Given that the services of this business segment is rendered to the local importers of raw materials and manufacturing companies for production of goods for export, the demand for logistics services from these entities was inevitably affected by the overall economic condition in the PRC and the US-China trade disputes. In view of the performance of this business segment, the Group performed impairment assessment on the cash generating unit's recoverable amount which includes goodwill, property, plant and equipment, prepaid land lease payment and construction in progress. Following such exercise, certain impairments were made to the assets of this business segment including the goodwill arose from acquisition of this business segment. Should there be any turn-around in the market condition and hence the performance of this business segment, such impairment (except for goodwill) may be reversed to reflect its recoverable amount.

FINANCIAL REVIEW

REVENUE

In 2018, the Group recorded an operating revenue of approximately RMB536.8 million (2017: RMB1,271.1 million), representing a decrease of approximately RMB734.3 million (or 58%) compared to that of 2017, the decrease was mainly due to: (i) revenue generated from commodity trading business decreased by RMB670.2 million as a result of the scale of trading transaction decreased; and (ii) the revenue of marble products decreased by RMB64.4 million due to decrease in sales volume and unit selling price in average.

(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:

	2018			2017		
		Approximate percentage	**Gross profit margin**		Approximate percentage	Gross profit margin
	RMB'000	**%**	**%**	RMB'000	%	%
Marble blocks	**14,806**	**2.8**	**73.0**	51,565	4.1	77.0
One-side-polished Slabs	**61,293**	**11.4**	**35.0**	83,797	6.6	23.1
Cut-to-size slabs	**10,017**	**1.9**	**13.3**	15,115	1.2	22.1
Logistics	**1,241**	**0.2**	**(190.2)**	933	–	7.5
Commodity Trading	**449,435**	**83.7**	**0.9**	1,119,648	88.1	1.2
Total	**536,792**	**100.0**	**6.6**	1,271,058	100.0	6.0

(b) *Sales Volume and Average Selling Price*

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

Sales volume	**2018**	2017
Marble blocks (m^3)	**4,609**	14,044
One-side-polished slabs (m^2)	**414,597**	648,825
Cut-to-size slabs (m^2)	**39,094**	50,520
Trading of chemicals (Ton)	**19,791**	134,885
Trading of marble blocks (m^3)	**4,400**	172,988
Average selling price		
Marble blocks (RMB/m^3)	**3,212**	3,672
One-side-polished slabs (RMB/m^2)	**148**	129
Cut-to-size slabs (RMB/m^2)	**256**	299

For the year ended 31 December 2018, the unit selling price of marble blocks decreased by approximately 12.5% as compared to that of 2017, mainly due to lower unit selling price for sale of the aged marble blocks.

The average selling price of one-side-polished slabs during the year increased by approximately 14.7% when compared with 2017, which was because the percentage for the sale of white-stripe-in-black slabs, a relatively low profits margin product, decreased in 2018.

The average selling price of cut-to-size slabs during the year decreased by approximately 14.4% compared with that of 2017, which was mainly attributable to: (i) the intention to clear up long aged cut-to-size slabs in Shuitou through sales promotion with comparatively lower selling price; and (ii) the decrease in the proportion of sale of high-priced cut-to-size slabs to overseas market.

COST OF SALES

For the year ended 31 December 2018, the Group's cost of sales amounted to approximately RMB501.5 million, which mainly consisted of processing costs, marble blocks mining costs, transportation costs and the purchase costs for commodities trading.

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 decreased by RMB10.0 million, representing a decrease of 63.5%, which was mainly due to the decreased processing volume of one-side-polished slabs and cut-to-size slabs.

Marble blocks mining costs

In 2018, marble blocks mining costs of the Group mainly included mining labour costs, materials consumption, fuel, power, depreciation of production equipment and amortization of mining rights. The marble blocks mining cost per unit increased nearly by 39.0% compared to that of 2017, mainly due to the significant increase in outsourcing service fee.

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 0.3% and 0.1% of the production costs for 2018 and 2017, respectively.

GROSS PROFIT AND GROSS PROFIT MARGIN

During 2018, the Group realised a gross profit amounted to approximately RMB35.3 million, decreased by approximately RMB40.7 million as compared to that of 2017. The gross profit margin in 2018 was approximately 6.6%, while the gross profit margin in 2017 was approximately 6.0% .

OTHER INCOME AND GAINS

Other income and gains mainly included foreign exchange gain, interest income from bank deposits and rental income. During the year, foreign exchange gain, interest income and rental income amounted to approximately RMB0.7 million, RMB0.2 million and RMB7.7 million respectively.

OTHER EXPENSES

Other expenses mainly consists of penalties and the expenses related to rental income. In 2018, such expenses amounted to approximately RMB7.0 million.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses mainly consisted of salaries of the Group's sales and distribution staff, transportation costs and advertising costs. Selling and distribution expenses decreased by approximately RMB6.4 million, from approximately RMB11.8 million for the year ended 31 December 2017 to approximately RMB5.4 million for the year, which was in line with the decrease of revenue.

ADMINISTRATIVE EXPENSES

Administrative expenses mainly consisted of equity-settled share option expenses, salaries of administrative staff, rental fee, consultancy fees and depreciation expense. Administrative expenses increased by approximately RMB44.0 million, from approximately RMB46.2 million for the year ended 31 December 2017 to approximately RMB90.2 million for the year. The increase in administrative expenses was mainly come from the equity-settled share option expenses of approximately RMB 36.2 million with the issuance of approximately 133 million and 229 million number of share options on 4 January 2018 and 30 October 2018 respectively. The details are set out in the Company's announcements dated 4 January 2018 and 30 October 2018 respectively.

FINANCE COSTS

Finance costs mainly included interests on bank loans, other borrowings and related interests of rehabilitation. Finance costs for the year ended 31 December 2018 amounted to approximately RMB39.9 million and increased by approximately RMB20.9 million as compared to that of 2017. The increase was mainly attributable to the increase in interests on bank loans and other borrowings.

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 2018, the total number of full-time employees of the Group was 122 (31 December 2017: 145). Employee costs (including the Directors' remunerations) totally amounted to approximately RMB53.8 million for 2018 (2017: approximately RMB27.5 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. The Group determined the remuneration packages of all employees including the Directors with reference to individual performance and current market salary scale.

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in a defined central pension scheme managed by the relevant local government authorities in respective regions in the PRC 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 2018, the contributions of approximately RMB1.3 million (2017: 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 RMB7.7 million from approximately RMB8.7 million for the year ended 31 December 2017 to approximately RMB1.0 million for the year. The decrease was mainly due to the decrease in profit before tax.

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

The net loss attributable to owners of the Company during the year amounted to approximately RMB395.8 million. For the year ended 31 December 2017, there was a net profit of RMB8.5 million. The net loss was mainly attributable to the decreased revenue and the increase in administrative expenses, finance costs and impairment losses on intangible assets, goodwill and trade receivables.

INVENTORIES AND TURNOVER DAYS

The Group's inventories decreased by approximately 58.2%, from approximately RMB129.2 million as at 31 December 2017 to approximately RMB54.0 million as at 31 December 2018. It was primarily due to: (i) decrease in inventories by RMB52.9 million was in line with the decrease in the trading business of commodities; (ii) in order to clear up the aged slabs stored in Shuitou, the Group sold the one-side-polished slabs through sales promotion, accordingly the inventories decreased. The inventory turnover days of the Group increase from 46 to 67 in 2018. Such increase in inventory turnover days was the result of the decrease in trading business and sales of marble products.

TRADE RECEIVABLES AND TURNOVER DAYS

The Group's trade receivables decreased from approximately RMB433.1 million as at 31 December 2017 to approximately RMB276.7 million as at 31 December 2018. The decrease was in line with the decrease in the sales of marble product and trading transactions. The turnover days of trade receivable increased from 76 to 238 in 2018. The increase in trade receivables turnover days was primarily owing to the tightening of financial market conditions, the financial difficulties experienced by downstream enterprises were aggravated and hence the payment to their suppliers was decelerated. Therefore, the Group's certain distributor customers delayed repayment to the Group accordingly as their respective operating cash inflow from the downstream entities was decelerated.

TRADE AND BILLS PAYABLES

The Group's trade and bills payables decreased by approximately RMB113.6 million as compared to about RMB196.3 million as at 31 December 2017 and reached approximately RMB82.6 million as at 31 December 2018. The decrease was in line with the decline of revenue and the demand of purchase.

NET CURRENT ASSETS

Net current assets of the Group decreased from approximately RMB148.6 million as at 31 December 2017 by 86.8% to approximately RMB19.6 million as at 31 December 2018, which was primarily due to capital expenditure used for the construction of new product plant in Jiangxi Province.

CURRENT RATIO

The current ratio, being current assets over current liabilities, was 1.0 as at 31 December 2018 (31 December 2017: 1.3), which was primarily due to the decrease in trade receivables because of the decrease in trading business and sales of marble products .

BORROWINGS

The Group generally finances its operations with internally generated cash flows and banking credit facilities. As at 31 December 2018, the Group had total bank loans and other borrowings of RMB407.6 million (31 December 2017: RMB398.9 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 2018, the gearing ratio was 18.7% (2017: 17.7%).

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 2018, the Group's expenditure for: (i) purchase of property, plant and equipment aggregated to approximately RMB119.1 million; (ii) acquisition of Vigoroso Holdings Ltd. ("Vigoroso Holdings") and its subsidiaries (together, "Vigoroso Group") aggregated to approximately RMB2.1 million.

FOREIGN EXCHANGE EXPOSURE

The Group's businesses are located in Mainland China and most of the transactions were denominated in RMB, except for an amount due to the certain cash at banks that is denominated in HK$ and US$. As such, the Group has limited exposure to any significant foreign currency exchange risks.

The Board of Directors (the "Board") does not expect any material impact on the Group's operations caused by any foreign currency fluctuations. No financial instruments were employed by the Group for hedging purpose during the year.

PLEDGE OF ASSETS

As at 31 December 2018, the property, plant and equipment amounted to approximately RMB13.0 million, the prepaid land lease payment amounted to approximately RMB298.5 million and mining right amounted to approximately RMB116.6 million were pledged as security for obtaining the certain bank loans granted to the Group.

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.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2018, the Group had capital commitments of approximately RMB153.0 million for acquisition of property, plant and equipment and intangible assets, which were contracted but not provided for (2017: RMB129.1 million). As at 31 December 2018, the Group had no material contingent liabilities.

MAJOR ACQUISITION AND DISPOSAL OF ASSETS AND MERGER

Acquisition of 100% equity of Vigoroso Holdings

On 19 December 2018, the Group acquired 100% equity interests in Vigoroso Holdings from Chen Yuhong, an independent individual and the then sole owner of Vigoroso Holdings. Vigoroso Holdings indirectly owns 80% equity interests in Lichuan Lotus Construction materials Co., Ltd. ("Lotus Materials"), which holds the mining permit to a marble mine located at Shaxi County, Lichuan, Hubei Province, with an area of approximately 1.4565 square kilometres, which will expire on 22 August 2023. Vigoroso Group are principally engaged in mining exploration of marble products, the acquisition was made to further enlarge the variety of stone products and to enhance the Group's competitiveness in the stone market.

The purchase consideration was in the form of cash, amounted to RMB11.43 million and the allotment and issue of 458,666,666 ordinary shares by the Company at HK$0.305 per share at the acquisition date, amounting to HK$139,893,000 (equivalent to approximately RMB123,182,000), in aggregate. The acquisition has been completed on 19 December 2018.

OUTLOOK

In the past, the Group's sale of marble stone products was mainly conducted via its sales network of distributors. Looking ahead, apart from the above sales model, we will act more proactively in building up strong bonds with real estate developers directly in a way that we aim to offer solutions to the developers' projects with a variety of stone products. With this approach, the control of sources and quality of products is crucial to ensure the steady and adequate supply of different stones with high quality. As such, the Group will continue seeking for quality mine resource as well as utilizing its existing mining resources to produce stone products with different patterns and colors to meet market demand. Coupled with the forthcoming new production facility in Jiangxi Province, the quality of its final products will further be assured. However, with the persistent US-China trade disputes which to certain extent affect the PRC economic growth and hence the real estate market and the construction material market. The Group expect 2019 is still a challenging year to the Group. It will carry out its business plan cautiously and revise where necessary to adapt to the changing market situation and conditions of the Group.

RESOURCES AND RESERVES

SHANGRI-LA MINE

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

Holder	Shangri-La Stone Co., Ltd.
Nature of resource	marble
Covered area	approximately 0.1649 square kilometer
Issuance date	March 2018
Expiration date	March 2021
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 2018 according to Chinese Standards.

RESOURCES	Millions of cubic meters
Indicated	2.2
Inferred	0.3
Total	2.5

During the year, the Shangri-La Mine excavated approximately 309 cubic metres of marble blocks in total (2017: 250 cubic metres). No capital expenditure was incurred in 2018 (2017: Nil).

DEJIANG MINE

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

Holder	Guizhou County Dejiang SanXin Stone Co., Ltd.
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.

At the date of this report, the application for further renewal of the mining license of the Dejian Mine has been approved by relevant authorities in February 2019 and pending the issue of the renewed mining licence.

The following table summarizes the marble resources of our Dejiang Mine, estimated as of 31 December 2018 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 2018 (2017: Nil).

YONGFENG MINE

Our Yongfeng Mine is located in the Yongfeng County of Jiangxi Province, the PRC 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	Jiangxi Jueshi (Yongfeng) Mining Co., Ltd.
Nature of resource	marble
Covered area	approximately 2.0 square kilometer
Issuance date	5 February 2013
Expiration date	5 February 2018, which can be extended to 5 February 2043 according to applicable laws and regulations.
Permitted production volume	250,000 cubic meters per annum

The application of the renewal of the mining license of the Yongfeng Mine has been approved by relevant authorities in June 2018 and pending issue of the renewed mining license.

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 RMB18.6 million plus interest accrued (in four equal annual installments) in the next two years. The first two installments aggregated to RMB18.6 million were paid by the Group's own funds as they fell due in March 2014 and March 2015 respectively. The remaining balance of the mining right fee was paid in January 2019.

Given (i) the Group had received the approval for the renewal of license application from the relevant government authority as mentioned above; (ii) there is no practical legal impediments in respect of the renewal of the license provided that the Group submitted the requisite application documents to the relevant authorities and undertakes the necessary procedures for renewal, as well as demonstrating to the relevant authorities the capability for the operation of the mine including investment in the auxiliary processing facilities; and (iii) the Group had paid the remaining outstanding mining right fee of RMB18.6 million in January 2019, the Group is of the view that under general market practice, the mining license remains valid and effective and the Group has retained its mining rights over the extraction and exploitation of the mine resources within the Yongfeng Mine during the relevant period.

The following table summarizes the marble resources and reserves of our Yongfeng Mine, estimated as of 31 December 2018 under the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves ("JORC Code").

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

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

The estimated resources and reserves of the Yongfeng Mine as of 31 December 2018 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's normal and routine mining activities carried out during the period from 1 October 2013 to 31 December 2018 and have been substantiated by Mr. NIE Zhiqiang, the vice president of Jueshi Mining, our wholly-owned subsidiary, who has over 24 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 2018 (as disclosed in this announcement) 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 2018 were identical.

The Group had mining activities for Yongfeng Mine in 2018 and excavated approximately 6,588 cubic metres marble blocks in total (2017:3,700 cubic metres). No capital expenditure was incurred in 2018. (2017: Nil)

ZHANGXI MINE

Located at Yongfeng County of Jiangxi Province, the PRC, 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	Jiangxi Jueshi (Ji'an) Mining Co., Ltd.
Nature of resource	marble
Covered area	approximately 0.7 square kilometre
Issuance date	23 July 2015
Expiration date	23 July 2018
Permitted production volume	20,000 cubic metres per annum

As set out in the Business Review section, the Yongfeng Bureau has agreed to expand the existing mining area of the Zhangxi Mine which is also under Yongfeng Bureau's administration. The Group is in the process of applying for renewal of the mining license of the Zhangxi Mine with the expanded mining area and increased marble resources with the Yongfeng Bureau. As it was indicated by the Yongfeng Bureau for the above arrangement, the Group consider the renewal of mining license will be approved and granted upon satisfaction of the other administrative and basic requirements. The Group keeps monitoring the progress in respect of the renewal and consider that there is no material barrier for the Group to renew such mining license.

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 2018 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 2018 (2017: None).

LICHUAN MINE

The Lichuan Mine is located at Shaxi County, Lichuan, Hubei Province, the PRC. The table below summarizes key information related to the current mining permit for the Lichuan Mine.

Holder	Lichuan Lotus Construction Materials Co., Ltd.
Nature of resource	marble
Covered area	approximately 1.5 square kilometre
Issuance date	22 August 2018
Expiration date	22 August 2023
Permitted production volume	13,000 tons per annum

The Hubei Province Bureau of Land and Resources assessed a mining right fee of RMB0.166 million for a period of five years.

The table below summarizes the marble resources of Lichuan Mine estimated as of 31 December 2018 according to Chinese Standards.

RESOURCES	**Millions of cubic meters**
Indicated	3.88
Inferred	0.67
Total	4.55

The Group did not have exploration, development and production activities for Lichuan Mine in 2018 (2017: None).

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	33	Executive Director, Chairman and Acting Chief Executive Officer
Mr. GU Weiwen	49	Executive Director and Vice Chairman
Mr. ZHANG Jian	44	Executive Director
Dr. LEUNG Ka Kit	42	Executive Director
Mr. GU Zengcai	56	Non-Executive Director
Ms. LUNG Yuet Kwan	53	Independent non-Executive Director
Ms. ZHANG Xiaohan	34	Independent non-Executive Director
Mr. HUI Yat On	59	Independent non-Executive Director

EXECUTIVE DIRECTORS

Ms. WU Jing (伍晶), aged 33, 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). Ms. Wu is the spouse of Dr. Leung Ka Kit, who is an executive Director. 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.

Mr. GU Weiwen (顧偉文), aged 49, 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 44, 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.

Dr. LEUNG Ka Kit (梁迦傑), aged 42, 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. He is also a director and the beneficial owner of Maswin International (Hong Kong) Co., Limited, a substantial shareholder of the Company. 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 56, has been appointed as non-executive Director of the Company on 8 June 2016. Mr. Gu graduated in the profession of industrial accounting school from Jiangsu Radio and TV University (江蘇廣播電視大學) in 1986. Mr. Gu worked as the director of audit department and vice manager of finance department in Zhuhai Port Co., Ltd. (珠海港股有限公司) (formerly known as Zhuhai Fuhua Group Co., Ltd. (珠海富華集團股份有限公司)) (a company listed as A share with stock code 000507) from October 1993 to August 1994. From September 1994 to April 2002, Mr. Gu worked in China Resources Bank of Zhuhai Co., Ltd. (珠海華潤銀行) (formerly known as Zhuhai Commercial Bank) (the "CR Bank") and served as the deputy director of Zhuhai Huayin City Credit Cooperatives (珠海華銀城市信用社), the branch president of CR Bank, and the manager of the capital department, finance department and credit department in the headquarter of the CR Bank. Mr. Gu was also appointed as the executive director of the Zhuhai Holdings Investment Group Limited (a company listed on The Stock Exchange with stock code 00908) (formerly known as Jiuzhou Development Company Limited) from October 2003 to August 2012 and the deputy chairman of the board of directors in the same company from August 2006 to August 2012. Mr. Gu obtained the certificate of the accountant and auditor in the year of 1992 and the certificate of Chinese Public Accountant in 1993. Save as disclosed above, Mr. Gu did not hold any directorship in the past 3 years in any other listed companies.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. LUNG Yuet Kwan (龍月群), aged 53, 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 34, 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 59, 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.

SENIOR MANAGEMENT

Mr. NIE Zhiqiang (聶志強), aged 51, 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 25 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 47, 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.

Mr. Lee Wai Ming (李偉明), aged 51, 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 38, 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 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 2018.

During the year ended 31 December 2018, 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 2018.

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

BOARD OF DIRECTORS

As at the date of this annual report the Board comprises 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)*

Save that Ms. Wu Jing and Dr. Leung Ka Kit are spouses, 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 19 to 22 of this annual report.

Independent non-executive Directors

During the year ended 31 December 2018, 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.

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.

There is no newly appointed director during the year.

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

Relevant reading materials including directors' manual and legal and regulatory update have been provided to the Directors for their reference and studying. The Directors have participated in the following trainings during the year ended 31 December 2018:

	Types of training
Executive Directors	
Ms. Wu Jing	B, C
Mr. Gu Weiwen	C
Mr. Zhang Jian	C
Dr. Leung Ka Kit	B, C
Non-executive Director	
Mr. Gu Zengcai	C
Independent non-executive Director	
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

BOARD DIVERSITY POLICY

The Company has adopted a board diversity policy whereby it recognizes and embraces the benefits of a diversity of Board members. The board diversity policy aimed to set out the approach to achieve diversity on the Board. In designing the Board's composition, numbers of measurable aspects including gender, age, cultural and educational background, length of services, skills knowledge and professional experience have been considered. All appointments of members of the Board are made on merit, and candidates will be considered against objective criteria, having due regards for the benefits of diversity on the Board.

The Board and its nomination committee have set and will continue to consider setting measurable objectives to implement the board diversity policy, and they will review the board diversity policy and measurable objectives from time to time to ensure their appropriateness and continued effectiveness.

During the year ended 31 December 2018 and as at the date of this annual report, the Board is characterized by significant diversity, whether considered in terms of gender, age, educational background, professional experience, skills knowledge and length of service.

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.

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.

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 2017, the Group's interim financial results and report for the six months ended 30 June 2018 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 2018 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.

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 one 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.

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 2018 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	8/8	N/A	2/2	1/1	1/1
Mr. GU Weiwen	7/8	N/A	N/A	N/A	1/1
Mr. ZHANG Jian	7/8	N/A	N/A	N/A	1/1
Dr. LEUNG Ka Kit	3/8	N/A	N/A	N/A	1/1
Non-executive Director					
Mr. GU Zengcai	2/8	N/A	N/A	N/A	1/1
Independent non-executive Directors					
Ms. LUNG Yuet Kwan	6/8	2/2	2/2	N/A	1/1
Ms. ZHANG Xiaohan	4/8	1/2	N/A	1/1	1/1
Mr. HUI Yat On	4/8	2/2	2/2	1/1	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 2018.

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 2018.

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 80 to 85.

AUDITORS' REMUNERATION

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

During the year ended 31 December 2018, the total fees paid/payable in respect of audit services provided by Ernst & Young were RMB3,100,000. There was no non-audit service fee incurred for the year ended 31 December 2018.

INTERNAL CONTROL

During the year ended 31 December 2018, 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 2018, Mr. Zhao undertook the relevant professional trainings as required under Rule 3.29 of the Listing Rules.

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.

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 2018, 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 2018.

1. ABOUT THIS REPORT

Basis of Preparation and Reporting Scope

This report is prepared by ArtGo Holdings Limited (the "Company", together with its subsidiaries referred to as the "Group") in accordance with the "Environmental, Social and Governance Reporting Guide" as set forth under Appendix 27 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and has complied with the "Comply or Explain" provisions as contained in the "Environmental, Social and Governance Reporting Guide".

The Group's business is diversified which involving mining, processing and sale of marble stones as well as commodity trading. Our products range 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 the meantime, the Group has endeavoured to operate its business in a sustainable manner. Such as logistics supply chain park, combining finance with conventional industries. This report covers the relevant policies and performance in regard to the business operations of the Group for the period from 1 January 2018 to 31 December 2018.

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.

Stakeholder Engagement and Materiality Assessment

The Group acknowledges that the stakeholder engagement and identification of material sustainability issues both represent the key to sustaining our business success. As a result we have been collecting opinions from internal and external stakeholders through multiple channels. The major stakeholders, including the shareholders, employees and management personnel, are invited to discuss and review those concerned issues that are conducive to our potential business growth and represent challenges to be tackled in the future, so that all material aspects and a series of key performance indicators can be determined for the purpose of disclosure.

Opinions and Feedback

As part of our sustainability development initiative, the Group welcomes the feedback and opinions from the stakeholders pertaining to improvement and performance of our environmental, social and governance aspects. Please submit your opinions to the e-mail address at ir@artgo.cn.

2. CORPORATE SOCIAL RESPONSIBILITY

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.

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. For the sustainability impacting the ecological environment and natural resources, ArtGo will seek to maximise greening benefits during its production activities to the extent that will not cause any ecological deterioration, and minimise consumption of natural resources. To fulfil the environmental commitments, the Group will enhance its product and technology performances, optimise production techniques, improve its management standards, and enhance the employee responsibility and awareness of environmental protection.

Sustainability practices

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 comprehensive mechanisms and measures for environmental protection, and community involvement and participation. The management assists in maintaining the Group's risk management and internal control systems, and the Board monitor the effectiveness and appropriateness of the system on a on-going basis to properly monitor environmental, social and governance performance and address related sustainability risks.

3. ENVIRONMENTAL PROTECTION

In promoting the long-term environmental sustainability, the Group has taken various environmental protection initiatives to minimise carbon emissions. During our business operation and management, practical regulations are introduced to utilise resources efficiently and reduce waste. Our stone mining business, which may generate different emissions and waste, and hence cause environmental impacts, as a result of which, we have implemented various policies and procedures to ensure our business operations proceed in compliance with specific regulations. As our other businesses, including logistics and other trading businesses, have less environmental impacts, we focus more on efficient consumption of energy and resources over the course of business operations.

3.1. Emissions

3.1.1.Environmental Policy

The Company's Environmental Policy focuses more specifically on emission reduction, carbon footprint reduction, promote waste reduction at source, green purchasing enhancement, and encourage stakeholder involvements. 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, NOx and SO
- 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
- Supervise the production safety and high quality products of our suppliers, and encourage them to use recycled materials and develop environment-friendly packaging while continuing to meet customers' expectations
- 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
- Invest in and construct environmental facilities to treat waste water, waste gas, and solid waste in compliance with the requirements set by the environmental authorities of local governments
- Establish internal control mechanisms, and safety practice commissioners and superintendents are appointed to implement various safety operation procedures in accordance with company regulations

3.1.2.Compliant emissions

The Group is in strict compliance with the relevant national environmental laws and regulations (including the Environmental Protection Law of the People's Republic of China and the Law of the People's Republic of China on Environmental Impact Assessment), laws related to pollutant emissions (including the Law of the People's Republic of China on the Prevention and Control of Water Pollution, the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste, and the Law of the People's Republic of China on the Prevention and Control of Environmental Noise Pollution), and other national and local policies.

3.1.3.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 waste water and dust during production and exhaust gas, air, waste water and solid waste generated from other daily operations.

3.1.4.Emission reduction and effectiveness

With respect to sewage management during production:

A water recycle 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 recycle 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.

With respect to dust prevention for efficient reduction of local air pollution:

All mines and production facilities are required to spray water for stone cutting, and set up separative enclosures and shielding cases during the production process so that dust from stone cutting can be eliminated to reduce environmental pollution.

With respect to exhaust gas management:

Exhaust gas of the Company is produced mainly by office vehicles and light transportation vehicles. The Company adopts strict approval system for office vehicles, 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. The Company also indirectly reduced emission of exhaust gas by reducing unnecessary business trips and travels and reasonably arranging vehicles. For example, increase the use rate of office vehicles and reasonably control the cost of vehicle use, as well as arrange travel together for the same trip on the same day. However, certain emission is difficult to avoid. Therefore, we strive to manage and control relevant risks. There is equipment on our production sites that generates electricity by using burning fuels such as generators and heavyduty equipment including loaders, excavators, forklifts, and other heavy-duty vehicles, which in turn generates greenhouse gases. The Company has developed policies to manage smoke emission produced by machines. For example, burning waste in open air is forbidden and all machines must use low sulfur diesel.

With respect to 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, and are checked and approved by the local government environmental department on a regular basis. In addition, we regularly arrange for waste water from construction sites such as sanitary wastewater to be collected.

Treatment of solid waste:

Certain construction waste and domestic refuse are inevitable during production and daily operation. To minimize 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. There is no significant amount of hazardous waste produced by the Company 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.. However, the related electricity consumption has also increased due to the increase in the amount of stone mining this year.

3.1.5. Emission Data

Major data on emission of ArtGo Group for the financial years of 2018 and 2017 is set out below:

	Unit	2018	2017
Emission of gas pollutants:			
Nitrogen oxides (NOx)	kg	**64.72**	28.17
Sulphur oxides (SOx)	kg	**1.95**	0.51
Particulate matter (PM)	kg	**4.76**	2.07
Greenhouse gas emission:			
Scope 1 emission[1]	tonne	**384.56**	39.10
Scope 2 emission[2]	tonne	**897.20**	297.91
Total emission (Scope 1 and 2)	tonne	**1,281.76**	337.01
Non-hazardous waste:			
Solid waste	tonne	**24,000**	6,400
Waste water	tonne	**3,655**	6,500

(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.

3.1.6. Recognition of waste reduction and energy conservation

Constantly striving to utilise various resources to minimise emissions in a reasonable and efficient manner, ArtGo has received the Wastewi$e Certificate and one Energywi$e Certificate under the Hong Kong Green Organisation Certification Scheme. This scheme aims to encourage industrial and business entities/enterprises to implement measures to minimise waste and conserve energy when operating their business, producing products, and rendering services, as well as to recognise the contributions made by these institutions/enterprises.

Wastewi$e Certificate and Energywi$e Certificate

3.1.7. Other measures for emission reduction and effectiveness

Promote an environment-friendly, green, healthy and comfortable office environment

3.2. Use of Resources

In 2018, the Group mainly consumed energy and resources such as power, gasoline, water, and paper. During the production process, including processing design, equipment procurement, facilities and buildings, and on-site management, we take into due consideration consumption of water, power, raw materials, and other natural resources so that consumption of non-renewable resources can be minimised.

3.2.1. Resource conservation

We implement resource conservation policies that are applicable to all activities engaged by the Company involving energy and resource procurement and consumption, which aims to utilise energy and resources in a reasonable and efficient manner, lowering costs, and enhancing our environmental performance;

During the business operation, the Company is committed to implementing the initiatives of environmental sustainability:

- deploy energy-efficient production equipment and sensor-controlled lighting systems
- reduce energy consumption during production
- use recyclable and degradable packaging materials for products
- promote the paperless office
- recycle and reuse rejected raw materials and defected products, if they are recyclable
- use recycled water; and
- raise the environmental awareness among our customers and business partners

3.2.2. Measures for resource conservation and effectiveness

Energy management:

Persisting in the philosophy of environmental protection and energy conservation, ArtGo is committed to reducing energy consumption during our office and mining operations, as well as maintaining a full-scale supervision and control of energy consumption. By doing so, ArtGo will enhance the overall efficient performance, thereby fulfilling our environmental and social responsibility and safeguarding the sustainable development of the Company in the long term.

In 2018, the Company continued monitoring the level of energy consumption during the mining process. Daily energy consumption decreased due to our improved mining and excavating technologies and enhanced employee awareness of energy conservation. In the meantime, we further arranged routes for transportation vehicles in a scientific and systematic manner, which reduced transportation distances and frequencies to minimise oil consumption on top of successful completion of transportation work. In the office, we proactively promoted and evangelised the concept of green office by replacing ordinary lighting tubes with energy-efficient lights, as well as trying to communicate and circulating documents in an electronic form. Where printing documents is required, we managed to conserve paper by double-sided printing. Where heating and air-conditioning were required during the winter and summer seasons, a temperature range was set to minimise energy consumption besides comfortable office conditions.

Water resource management:

ArtGo encourages reasonable utilisation of resources and waste reduction during its operation. Therefore, throughout the entire business and production process, we have been actively implementing measures for conserving water and power, including water-saving faucets and other energy-efficient installations and amenities that are deployed to the office and related facilities, and encouraging our employees to develop the habit of water and power conservation during their daily life. At lavatories, hand-washing sinks, and power switches are posted with signs to remind conservation. At the employee cafeteria, all bowls and chopsticks are collected for centralised cleaning, the water used for which will be reused to wash and clean vehicles or the ground. These initiatives helped us reduce the water consumption intensity during 2018.

Post a reminder card for saving energy

3.2.3. Data of resource consumption

Set forth below is major data regarding resource consumption by ArtGo Group for the financial year ended 2018 and 2017:

	Unit	2018	2017
Total water consumption	tonne	**20,240**	19,700
Total power consumption	kWh	**1,073,533**	419,592
Total fuel consumption	litre	**142,736**	225,567
Total paper consumption	piece	**157,530**	177,500

3.3. Environmental and natural resources

In 2018, all subsidiaries of ArtGo Group were required to conduct the construction project environmental impact assessment in strict compliance with the Law of the People's Republic of China on Environmental Impact Assessment, and strengthen the supervision over environmental assessment of new renovation and expansion projects, as well as their inspection and acceptance procedures over the course of project design, construction and operation, so that all engineering projects were successfully approved for construction.

To minimise the impact caused by mining activities on the environment and resources, the mines strictly implemented the "Environmental Protection Policies on Mining" by formulating monthly exploitation quantity policies, using the wire saws, reducing blast volumes, and optimising the mining equipment. In addition, overnight operation activities are prohibited, and sewage treatment tanks are built to ensure the sewage meets the emission standard. Furthermore, noise control is in place to minimise the impact on the residential and living conditions of villagers.

To prevent mining activities from damaging vegetation around the mines, we try our best endeavour to avoid causing damages to plants grown on the requisitioned land, and proactively engage in environmental and greening restoration and plantation. Besides continuing to increase the green plantation efforts, we formulate policies regarding land and mine refill following the exploitation of mineral resources so as to reduce geological impacts. As for damages to plants, the Company implements afforestation measures on a timely basis following exploitation so that greening conditions and the habitats of animals are restored.

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.

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.

4. EMPLOYMENT AND LABOUR PRACTICES

4.1. Employment

ArtGo attaches importance to humanity and insists on integrating the people-oriented concept into the production and management system of the Company. We strive to create a healthy, comfortable, safe and harmonious working environment for our employees, prohibit discrimination in terms of race, religion, disability, gender, education, etc., resolutely oppose the use of child labour and forced labour.

4.1.1. Employment system

Most of the employees of the Company are located in China. The Company strictly abides by the requirements of the Labour Law and the Labour Contract Law of China without violating the relevant laws and regulations:

- The recruitment and dismissal process is strictly in accordance with the labour regulations of the state and local governments
- There is no discrimination policy on gender, age, ethnicity, race, religion, physical condition, etc. in aspects including recruitment, employment, training, selection, remuneration and promotion
- Wages and related welfare benefits are paid on time with no default of employee salaries
- Statutory holidays and paid leaves are carried out in accordance with national regulations
- based on the principle of equal opportunity and non-discrimination, the employment, remuneration and promotion of employees will not be influenced by factors such as their ethnicity, gender, political affiliation

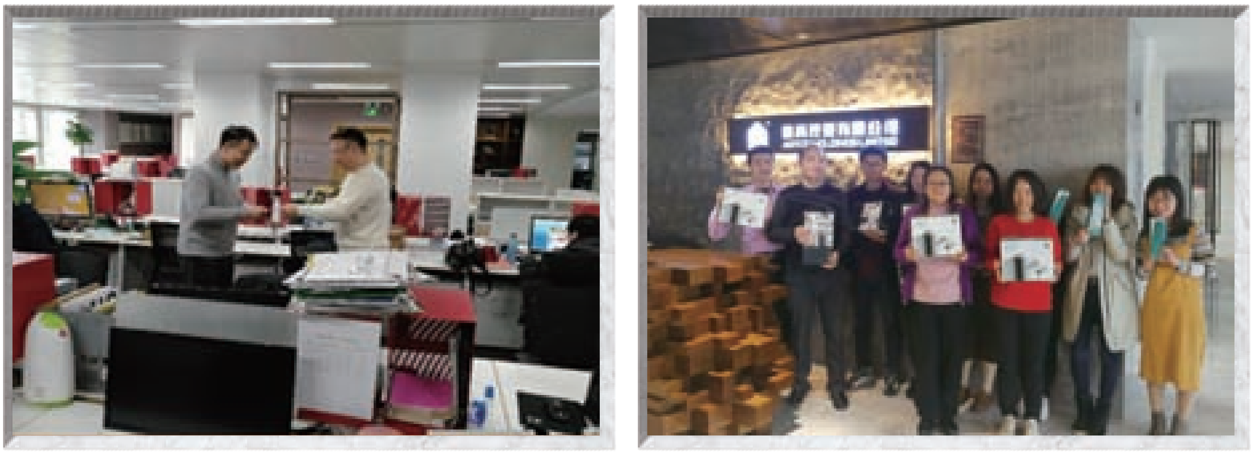
We strictly comply with the Company Law, Labour Law, Labour Contract Law, Trade Union Law and other laws and regulations of the PRC as well as the relevant provisions of female employees benefits before and after maternity. The details are as follows:

- 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

4.1.2. Caring for Staff

In order to improve employees' sense of belonging and let them feel the warmth of being with the family, we organise various activities for employees each year, including feasts and blessing activities on traditional holidays, monthly birthday parties for employees and Chinese New Year parties. These activities have effectively motivated employees and help them strike a balance between work and life.

The Company offered employees gifts to express gratitude and condolences on Dragon Boat Festival and Mid-Autumn's Day



Start-up red packets and lucky draw on Lantern Festival to boost employees' cohesiveness

Organizing employee birthday party to enable them feel the warmth of being with the family

4.1.3. Composition of Employees:

As at 31 December 2018, the Company employed a total of 122 full-time employees, 8 of whom were from Hong Kong, and 114 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:

	2018		2017	
	Number	**Percentage**	Number	Percentage
Total employees	**122**	**100%**	145	100%
By gender:				
Male	**79**	**65%**	96	66%
Female	**43**	**35%**	49	34%
By employment category:				
Senior management	**16**	**13%**	16	11%
Middle management	**17**	**14%**	20	14%
Ordinary employee	**89**	**73%**	109	75%
By age group:				
Under 30	**26**	**21%**	53	37%
31–40	**58**	**48%**	65	45%
41–50	**24**	**20%**	22	15%
Over 51	**14**	**11%**	5	3%

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

	2018	2017
By gender:		
Male	**4.1%**	19%
Female	**4.1%**	22%
By age group:		
Under 30	**4.0%**	21%
31–40	**3.6%**	14%
41–50	**0.6%**	32%
Over 51	**0.2%**	23%
By geographic location:		
Hong Kong	**0%**	8%
Mainland China	**8.2%**	20%

4.2. Occupational Health and Safety

By sticking to the development principle of "human-oriented and safety-first", we conduct production safety throughout its production and operation activities, while establishing and operating a sound occupational health and safety management system within the Company. We purchase safety liability insurance and employment injury insurance for all employees; and provide safety precaution education and training. 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 to ensure the safe and up-to-standard production and operation process so as to provide a healthy and safe working environment for all the staff of the Company.

- Provide safety construction system and safety facilities in plants

- Provide information, instruction, training and supervision on safety, health and environment

- Put various safety warning signs at the sites and organised regular team meetings to investigate potential site risks
- Designate Safety Specialists to supervise employees to conduct various safety procedures in accordance with the requirements of the Company
- Conduct trainings on operational skills and safety production in various processes
- Ensure safety in handling materials including use, handling, storage and transportation
- Develop an inspection system for machinery and sites before employees' on/off duty
- Formulate emergency plans to cope with emergent environment issues, power and water failure, etc.
- Provide employees with the necessary labour protective products

Post safety notices on the production site

The Company has always adopted the employment way of "selection-employment-cultivation-promotion-retaining". Training such as operational skills training and safety production training are organized for new employees, while "internal and external trainings", "projects and topics exercise", "job rotation" and other modes are designed for existing employees, so as to help them to transit from elementary, intermediate to senior management personnel, and enable them to keep improving their quality and capabilities, thus achieving post promotion to provide multi-platforms of development opportunities for the career planning of staff.

- Conduct safety training every year (before employment and during work)

- Conduct trainings on operational skills and safety production in various processes


Training on environmental protection and safety in mining


Special training on safe production for frontline workers at production bases

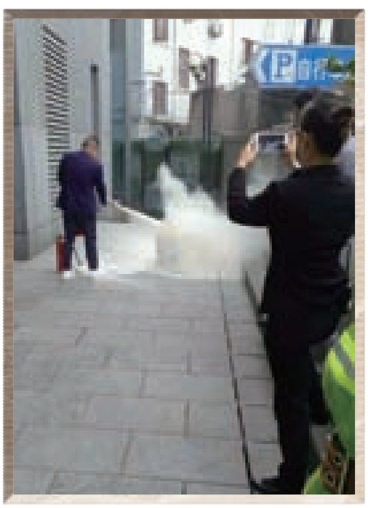
4.3. Safety Development and Training

Employees and talented personnel are the basis for corporate development. The Company continued to improve its occupational training system in order to provide equal opportunities for its staff. The training system enhances the quality of its staff and their career development. The Company has established a well-rounded curriculum system and a training regulatory system and has also actively promoted the building up of teacher resources internally and externally in order to effectively support the development of its management and technical team and improve its human resources. Every year, the Company will formulate education and training programs for employees based on the annual operational strategy and human resources development needs.

During the reporting period, the Company has provided its employees 979 overall course hours to a total of 445 participants. The courses involved include 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.

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)	
	2018	2017
By gender:		
Male	**2.28**	2.80
Female	**2.02**	2.05
By employment category:		
Senior management	**5.48**	5.47
Middle management	**3.93**	4.27
Ordinary employee	**1.49**	1.69



Fire drill

4.4. Labor Standards

The Company was in strict compliance with the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China and other laws and regulations relating to employees. We also purchased social insurance, including basic endowment insurance, unemployment insurance, maternity insurance, occupational injury insurance and basic medical insurance, for our employees in accordance with the Regulations of the People's Republic of China on Occupational Injury Insurance, the Regulations of the People's Republic of China on Unemployment Insurance, and the Provisional Measures for Maternity Insurance for Enterprise's Employees.

We are committed to employment equality, and providing a fair, democratic, competitive and merit-based selection and employment mechanism for staffs, and signs labor contracts according to the law to define rights and obligations. The Company sets up clear requirements on the "prohibition of child labor employment", "forced labor employment" and "termination of labor contracts". Any employment discrimination behavior in any form is prohibited and there are no cases of child labor employment, forced labor employment, etc.

Labor system: The labor system of the Company is established in accordance with the Labour Law of the People's Republic of China and the Labor Contract Law of the People's Republic of China, which conforms to the requirements of laws and regulations. The Company also provides guidance for its staff according to relevant laws and regulations all the time.

- Right to organise and collective bargaining
- Freedom of employment selection and prohibition of forced labour
- Equal employment and equal pay for male and female workers
- Prohibition of child labour
- Reasonable working condition (including wages, labour hour, rest, vacation, and occupational safety and health)

During the Year, we did not receive any complaints about violation of the laws and regulations relating to remuneration, dismissal, recruitment, promotion, working hours, rest periods, equal opportunities, diversity, anti-discrimination, etc.

5. OPERATION PRACTICES

5.1. Supply Chain Management

The Company guides suppliers to fulfill their social responsibilities through the assessment of supply chain responsibility to promote our social responsibility concepts and policies to the entire supply chain, so as to effectively prevent any material negative impact from the supply chain on labor practices, the environment and society.

The Company will conduct a dynamic assessment of the supplier's social responsibility performance during the survey, tender and performance phases, and integrate sustainable concepts into daily supply chain management:

- Enterprise Qualification
- Environmental impacts of production and use processes
- Labour relations
- Employee occupational safety and health protection
- Health and safety impact assessment
- Ecological impacts of raw material sources

As a company with ethical responsibility, the Group's selection is beyond price. A number of criteria will be considered in each purchase. The Company integrates social responsibility indicators into the project business by designing supplier evaluation plans, screening suppliers, purchasing products needed and monitoring the construction process, committed to achieving green, safe, harmonious and win-win supply chain management system.

5.2. 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.

The Company's marble stones are natural and harmless to human bodies, and ancillary materials used pass the quality safety inspection. Every year we will submit our stone samples of the Company for assessing the level of heavy metals and product radiation, which have passed national inspection with respect to health and therefore dispel the misunderstanding of people that marble stones have radiations and exerting almost no impact on health. Normally, our products are not returned due to quality and safety issues. Our products are occasionally returned, only because the overall display effect of the products differ from the design of the project designer.

The Group 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. On the other hand, we stress great importance of integrity and corporate transparency, and strive to build a stable and long-standing customer relationship by laying a solid foundation for trust and mutual benefits. We safeguard and respect the privacy and options of our customers, and the importance of customer privacy is utmostly respected. As a result, we further elaborate our "Privacy Policy and Commitments" as follow:

To provide thorough safeguards for customer privacy and data, as well as to prevent the leakage of customer information, our Privacy Policy and Commitments include:

- We respect customer privacy and options
- We ensure that privacy and security is deeply rooted in all of our actions
- Unless required by our customers, we will not push any marketing messages to the customers, and our customers may at any time change their option

- We will never reveal or sell customer information
- We are committed to safeguarding the security of customer information, including collaboration with reliable partnerships
- We are committed to remaining open and transparent about how we use customer information
- We will not use customer information without notifying the relevant customers
- We respect customer rights, and continue our efforts to meet customer demands in addition to satisfying our legal and operation obligations

5.3. Anti-corruption

The Company has been committed to creating a corporate atmosphere of integrity by deeply implementing the eight requirements for integrity and self-discipline of the cadres and employees of the Company. The Company requires cadres of all levels to act with integrity and self-discipline by eliminating extravagance and waste from various aspects including material procurement, production, marketing and management. To ensure that employees clearly understand and comply with the relevant provisions on "anti-corruption" (including but not limited to prevention of bribery, extortion and fraud), maintain high ethical standards, and commit themselves to "having the integrity and self-discipline to resolutely prevent personal corruption", it is expressly defined that "the atmosphere of integrity can not be trampled and destroyed by anyone". With our determination to punish corruption and maintain corporate integrity, those involved in violation of laws and regulations will be handed over to judicial authorities.

Regarding to anti-corruption, we are determined to adopt a zero-tolerance attitude and will not allow the employees, suppliers, customers, and all partners of the Company to commit any corruption, extortion, fraud, money laundering and other misconduct.

The Company carries out employee satisfaction surveys at least once a year and has set up a chairman's mailbox to collect employee feedback and enable them to report misconduct. In addition, in order to promote the Company's sustainable and healthy development, we have complied the Integrity and Self-discipline Management Regulations to help employees rectify misconduct, encourage and motivate them to follow regulations and rules, and warn them to correct mistakes and regulate behaviors.

6. COMMUNITY INVESTMENT

While striving for its own growth, the Company does not forget the public welfare undertakings and return to the society. The Company has supported various initiatives to meet the needs of the underprivileged groups and improve their quality of life so as to alleviate poverty, facilitate pluralistic unity and promote community harmony. By encouraging employees to participate in various volunteer, public welfare, sports and cultural activities, we promote the further implementation of volunteer activities with care for others, care for the society and care for the nature. The Company insists on enhancing the core competitiveness through technological innovation, and actively practices social responsibility to provide scientific and accurate science knowledge to the whole society. 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.

Devotion to public welfare with care for society

THE STOCK EXCHANGE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE CONTENT INDEX

Indicators	Particulars	Report Content Index
A. Environmental		
Aspect A1: Emissions		
General Disclosure		3.1.1.–3.1.2.
A1.1	The types of emissions and respective emissions data.	3.1.5.
A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	3.1.5.
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	3.1.5.
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	3.1.5.
A1.5	Description of measures to mitigate emissions and results achieved.	3.1.4.
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	3.1.4.
Aspect A2: Use of Resources		
General Disclosure		3.2.1.
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in ’000s) and intensity (e.g. per unit of production volume, per facility).	3.2.3.
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	3.2.3.
A2.3	Description of energy use efficiency initiatives and results achieved.	3.2.2.
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	3.2.2.
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	This key performance indicator is not considered significant given the business nature of the Group.

Indicators	Particulars	Report Content Index
Aspect A3: The Environment and Natural Resources		
General Disclosure		3.3.
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	3.3.
B. Social		
Aspect B1: Employment		
General Disclosure		4.1.1.
B1.1	Total workforce by gender, employment type, age group and geographical region.	4.1.3.
B1.2	Employee turnover rate by gender, age group and geographical region.	4.1.3.
Aspect B2: Health and Safety		
General Disclosure		4.2.
B2.1	Number and rate of work-related fatalities.	4.2.
B2.2	Lost days due to work injury.	4.2.
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	4.2.
Aspect B3: Development and Training		
General Disclosure		4.3.
B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	4.3.
B3.2	The average training hours completed per employee by gender and employee category.	4.3.
Aspect B4: Labour Standards		
General Disclosure		4.4.
B4.1	Description of measures to review employment practices to avoid child and forced labour.	4.4.
B4.2	Description of steps taken to eliminate such practices when discovered.	4.4.

Indicators	Particulars	Report Content Index
Aspect B5: Supply Chain Management		
General Disclosure		5.1.
B5.1	Number o f suppliers by geographical region.	5.1.
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	5.1.
Aspect B6: Product Responsibility		
General Disclosure		5.2.
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	5.2.
B6.2	Number of products and service related complaints received and how they are dealt with.	5.2.
B6.3	Description of practices relating to observing and protecting intellectual property rights.	5.2.
B6.4	Description of quality assurance process and recall procedures.	5.2.
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	5.2.
Aspect B7: Anti-corruption		
General Disclosure		5.3.
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	5.3.
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	5.3.
Aspect B8: Community Investment		
General Disclosure		6
B8.1	Focus areas of contribution	6
B8.2	Resources contributed to the focus area	6

The Directors are pleased to present the report and the audited consolidated financial statements of the Group for the year ended 31 December 2018.

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, trading of commodities and cargo handling, warehousing and logistics. 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.

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 2018.

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.

RESULTS

The results of the Group for the year ended 31 December 2018 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 2018.

DIVIDEND POLICY

The Company has adopted a dividend policy with the objective of achieving a balance between the amount of dividend and the amount of profits retained in the Group for business growth and other purposes. In deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, among others:

(a) the Group's financial results;

(b) the general financial condition of the Group;

(c) the Group's current and future operations;

(d) the level of the Group's debts to equity ratio, return on equity and the relevant financial covenants;

(e) liquidity position and capital requirement of the Group;

(f) the general market conditions; and

(g) any other factors that the Board deem appropriate.

The declaration and payment of the dividend by the Company is also subject to any restrictions under the Companies Law of the Cayman Islands and the Company's Articles of Association and any other applicable laws and regulations.

RESERVES

Details of movements in the reserves of the Group for the year ended 31 December 2018 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 2018, the reserves of the Company available for distribution to Shareholders amounted to approximately RMB1,645.9 million (2017: RMB1,476.8 million).

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's largest and five largest customers were approximately 64.5% and 87.5% of the Group's total sales respectively. The aggregate purchases attributable to the Group's largest and five largest suppliers were approximately 39.4% and 90.8% 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 2018 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 (2017: Nil).

PROPERTY, PLANT AND EQUIPMENT

Details of property, plant and equipment of the Group are set out in note 12 to the consolidated financial statements of this annual report.

INVESTMENT PROPERTIES

Details of investment properties of the Group are set out in note 13 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 2014, 2015, 2016, 2017 and 2018, as extracted from the audited financial statements, is set out on pages 169 to 170 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)
Dr. LEUNG Ka Kit (梁迦傑)

Non-executive Director

Mr. GU Zengcai (顧增才)

Independent Non-executive Directors

Ms. LUNG Yuet Kwan (龍月群)
Ms. ZHANG Xiaohan (張曉涵)
Mr. HUI Yat On (許一安)

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, Dr. LEUNG Ka Kit, Mr. GU Zengcai and Mr. HUI Yat On 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.

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 8 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 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.

SHARE OPTION SCHEMES

Pre-IPO Share Option Scheme

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 to 42 months from the date of Listing unless otherwise cancelled or amended. The final batch of 1,066,669 share options under the Pre-IPO Share Option Scheme expired without being exercised on 30 June 2018.

Share Option Scheme

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

(a) *Purpose of the Share Option Scheme*

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

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

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

(b) *Participants of the Share Option Scheme*

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

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

(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. The Board may renew this limit at any time to 10% of the Shares in issue as of the date of approval by the Shareholders in general meeting.

As at 31 December 2018, there were 37,488 options available for grant under the Share Option Scheme, representing 0.001% of the issued share capital of the Company as at 31 December 2018.

As at the annual general meeting of the Company held on 14 June 2018, subsequent to the adoption of the Share Option Scheme on 9 December 2013, the 10% limit on the grant of share options under the Share Option Scheme was refreshed (the "Refreshment").

(i) During the period from the date of adoption of the Share Option Scheme to the Refreshment, 133,333,400 options had been granted under the Share Option Scheme (details are set out in the Company's announcement dated 4 January 2018), out of which no options have been exercised, cancelled or lapsed up to 31 December 2018;

(ii) During the period from 14 June 2018, being the date when the Scheme Mandate Limit was last refreshed, and up to 31 December 2018, 229,300,000 options have been granted under the Share Option Scheme (details are set out in the Company's announcement dated 30 October 2018), out of which no share options have been exercised, cancelled or lapsed;

(iii) The existing Scheme Mandate Limit is 229,337,488 Shares (the "Existing Scheme Mandate"), being 10% of the Shares in issue as at 14 June 2018, the date of approval of existing Scheme Mandate Limit. As at 31 December 2018, there are total outstanding 362,633,400 options since adoption of the Share Option Scheme (representing about 13.18% of the issued share capital of the Company as at 31 December 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) *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.

(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) *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.

(h) *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).

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

		Number of Options							
Name	Date of grant	Balance as at 1 January 2018	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Balance as at 31 December 2018	Exercise price per share HK$	Exercisable period
Directors:									
Ms. Wu Jing	4 January 2018	–	22,000,000	–	–	–	22,000,000	0.854	4 January 2018 to 3 January 2020
Dr. Leung Ka Kit	4 January 2018	–	22,000,000	–	–	–	22,000,000	0.854	4 January 2018 to 3 January 2020
Mr. Gu Weiwen	4 January 2018	–	22,000,000	–	–	–	22,000,000	0.854	4 January 2018 to 3 January 2020
Mr. Zhang Jian	30 October 2018	–	22,000,000	–	–	–	22,000,000	0.399	30 October 2018 to 29 October 2020
Mr. Gu Zengcai	30 October 2018	–	1,800,000	–	–	–	1,800,000	0.399	30 October 2018 to 29 October 2020
Ms. Lung Yuet Kwan	30 October 2018	–	1,800,000	–	–	–	1,800,000	0.399	30 October 2018 to 29 October 2020
Ms. Zhang Xiaohan	30 October 2018	–	1,400,000	–	–	–	1,400,000	0.399	30 October 2018 to 29 October 2020
Mr. Hui Yat On	30 October 2018	–	1,800,000	–	–	–	1,800,000	0.399	30 October 2018 to 29 October 2020
		–	94,800,000	–	–	–	94,800,000		
Other employees:									
In aggregate	4 January 2018	–	67,333,400	–	–	–	67,333,400	0.854	4 January 2018 to 3 January 2020
In aggregate	30 October 2018	–	52,500,000	–	–	–	52,500,000	0.399	30 October 2018 to 29 October 2020
		–	119,833,400	–	–	–	119,833,400		
Other grantees:									
In aggregate	30 October 2018	–	148,000,000	–	–	–	148,000,000	0.399	30 October 2018 to 29 October 2020
		–	362,633,400	–	–	–	362,633,400		

On 4 January 2018, the Company granted share options entitling subscription of a total 133,333,400 Shares pursuant to the Share Option Scheme and the closing price of the Shares immediately before the date on which the aforesaid share options were granted was HK$0.80.

On 30 October 2018, the Company granted share options entitling subscription of a total 229,300,000 Shares pursuant to the Share Option Scheme and the closing price of the Shares immediately before the date on which the aforesaid share options were granted is HK$0.40.

DISCLOSURE OF INTERESTS

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

As at 31 December 2018, 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 Securities and Futures Ordinance (the "SFO")) which had to be notified to the Company and The Stock Exchange of Hong Kong Limited (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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"), were as follows:

(a) Long positions in the Shares

Name of Director	Capacity	Number of Shares interested (Note 1)	Approximate percentage of the issued share capital of the Company
Ms. Wu Jing	Spouse Interest (Note 2)	558,735,840(L)	20.30%
	Beneficial Owner (Note 3)	22,097,000(L)	0.80%
Dr. Leung Ka Kit	Interest in Controlled Corporation (Note 4)	536,735,840(L)	19.50%
	Spouse Interest (Note 3)	22,097,000(L)	0.80%
	Beneficial Owner (Note 2)	22,000,000(L)	0.80%
Mr. Gu Weiwen	Beneficial Owner	22,000,000(L)	0.80%
Mr. Zhang Jian	Beneficial Owner	22,000,000(L)	0.80%
Mr. Gu Zengcai	Beneficial Owner	1,800,000(L)	0.07%
Ms. Lung Yuet Kwan	Beneficial Owner	1,800,000(L)	0.07%
Ms. Zhang Xiaohan	Beneficial Owner	1,400,000(L)	0.05%
Mr. Hui Yat On	Beneficial Owner	1,800,000(L)	0.07%

Notes:

1. The letter "L" denotes the person's long position in the shares.

2. Dr. Leung Ka Kit ("Dr. Leung") is interested in 536,735,840 Shares through his wholly-owned subsidiary Maswin International (Hong Kong) Co. Limited and interested in 22,000,000 Shares as 22,000,000 share options of the Company have been granted to Dr. Leung, altogether Dr. Leung is interested in 558,735,840 Shares. As Ms. Wu Jing is the wife of Dr. Leung, pursuant to Part XV of the SFO, Ms. Wu Jing is deemed to be interested in the said 558,735,840 Shares.

3. Ms. Wu Jing beneficially owns 22,097,000 Shares, and pursuant to Part XV of the SFO, Dr. Leung is deemed to be interested in the said 22,097,000 Shares due to his spouse interest.

4. Dr. Leung is interested in 536,735,840 Shares through his wholly-owned subsidiary Maswin International (Hong Kong) Co. Limited pursuant to Part XV of the SFO, Dr. Leung is deemed to be interested in the said 536,735,840 Shares.

Save as disclosed above, as at 31 December 2018, none of the Directors and the chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were deemed or taken to have under such provisions of the SFO); or to be recorded in the register required to be kept under section 352 of the SFO; or to be notified to the Company and the Stock Exchange pursuant to the Appendix 10 of the Listing Rules.

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

As at 31 December 2018, 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
Maswin International (Hong Kong) Co. Limited	Beneficial Owner (Note 2)	536,735,840(L)	19.50%
China Marble Investment Holdings Limited	Beneficial Owner	229,169,452(L)	8.33%
Carlyle Asia Growth Partners IV, L.P.	Interest in Controlled Corporation (Note 3)	229,169,452(L)	8.33%
CAGP IV General Partner, L.P.	Interest in Controlled Corporation (Note 3)	229,169,452(L)	8.33%

Name	Capacity	Number of Shares interested (Note 1)	Approximate percentage of the issued share capital of the Company
CAGP IV, L.L.C.	Interest in Controlled Corporation (Note 3)	229,169,452(L)	8.33%
TC Group Cayman Investment Holdings Sub, L.P.	Interest in Controlled Corporation (Note 3)	229,169,452(L)	8.33%
TC Group Cayman Investment Holdings, L.P.	Interest in Controlled Corporation (Note 3)	229,169,452(L)	8.33%
Carlyle Holdings II L.P.	Interest in Controlled Corporation (Note 3)	229,169,452(L)	8.33%
Carlyle Holdings II GP L.L.C.	Interest in Controlled Corporation (Note 3)	229,169,452(L)	8.33%
The Carlyle Group L.P.	Interest in Controlled Corporation (Note 3)	229,169,452(L)	8.33%
Shanghai Jihua Logistic Limited (上海際華物流有限公司)	Beneficial Owner	190,000,000(L)	6.90%
Xinxing Jihua Investment Co. Ltd. (新興際華投資有限公司)	Interest in Controlled Corporation (Note 4)	190,000,000(L)	6.90%
Xinxing Cathay International Group Co. Ltd. (新興際華集團有限公司)	Interest in Controlled Corporation (Note 4)	190,000,000(L)	6.90%
Mr. Qin Yin	Beneficial Owner	168,692,160(L)	6.13%
Mr. Tong Sui Lun Franco	Person Having a Security Interest in Shares	167,547,160(L)	6.09%

Notes:

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

2. Maswin International (Hong Kong) Co. Limited ("Maswin International") holds 536,735,840 Shares. Dr. Leung Ka Kit is interested in the entire issued shares of Maswin International and interested in 22,000,000 Shares as 22,000,000 share options of the Company have been granted to Dr. Leung Ka Kit, therefore, altogether Dr. Leung Ka Kit is interested in 558,735,840 Shares, 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 deemed to be interested in the said 558,735,840 Shares.

   Ms. Wu Jing beneficially owns 22,097,000 Shares, and pursuant to Part XV of the SFO, Dr. Leung is deemed to be interested in the said 22,097,000 Shares due to his spouse interest.

3. As known to the Directors after making reasonable enquiry, as at 31 December 2018, China Marble Investment Holdings Limited was 91.83% owned by Carlyle Asia Growth Partners IV, L.P.. The Carlyle Group L.P. indirectly wholly owned Carlyle Asia Growth Partners IV, L.P. through Carlyle Holdings II GP L.L.C., Carlyle Holdings II L.P., TC Group Cayman Investment Holdings, L.P., TC Group Cayman Investment Holdings Sub, L.P., CAGP IV, L.L.C. 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, L.L.C., 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 2018, Shanghai Jihua Logistic Limited (上海際華物流有限公司) was wholly owned by Xinxing Jihua Investment Co. Ltd. (新興際華投資有限公司), which was a wholly-owned subsidiary of Xinxing Cathay International Group Co. Ltd. (新興際華集團有限公司).

EQUITY-LINKED AGREEMENTS

Other than the 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 2018, 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 2018.

A summary of the related party transactions entered into by the Group during the year ended 31 December 2018 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.

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 2018, 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 2018. 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 2019

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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 86 to 168, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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.

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, warehousing and logistics operations, including property, plant and equipment, mining rights, investment in associates, goodwill and payments in advance. Accordingly, management performed the impairment assessment based on the discounted cash flow model on these non-current assets or the related cash-generating units. Total impairment losses on non-current assets of RMB538,654,000 were recognised during the year. The assessment of impairment involves significant estimation uncertainty, subjective assumptions and application of significant judgement, in relation to recoverable reserves, commodity prices, the discount rate, budgeted gross margin and production volumes. The Group's disclosures about impairment assessment for these CGUs and non-current assets are included in notes 2.4, 3, 12, 15 and 16 to the financial statements.	Our audit procedures to assess impairment included the following: • We evaluated the assessment of impairment indicators of these non-current assets 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.

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. As at 31 December 2018, the Group's gross balance of trade receivables amounted to RMB303,582,000, of which RMB25,780,000 was past due. Management's estimate is required in assessing the expected credit losses ("ECL") in accordance with IFRS 9. ECL for trade receivables is based on management's estimate of lifetime ECL to be incurred, which is estimated by taking into account the credit loss experience, ageing of trade receivables, customer's repayment history and an assessment of both current and forecast macro-economic conditions, all of which involve a significant degree of management judgement. Management has performed ECL analysis and concluded that an ECL allowance of RMB26,919,000 should be required as at 31 December 2018. The Group's disclosures about the impairment assessment for trade receivables are included in notes 2.4, 3, 20 and 41 to the financial statements.	Our audit procedures included 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 ECL allowance 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; • We assessed the appropriateness of expected credit losses methodology, examining the key data inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information, used to determine the expected credit losses; and • We assessed the adequacy of the disclosures regarding the ECL allowance for trade receivables and the Group's exposure to credit risk.

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.

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.

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 Ho Siu Fung, Terence.

Ernst & Young
Certified Public Accountants
Hong Kong
29 March 2019

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	4, 5	**536,792**	1,271,058
Cost of sales		**(501,511)**	(1,195,094)
Gross profit		**35,281**	75,964
Other income and gains	5	**9,192**	25,139
Selling and distribution expenses		**(5,376)**	(11,835)
Administrative expenses		**(90,192)**	(46,155)
Other expenses		**(6,966)**	(7,052)
Impairment loss on intangible assets	15	**(517,954)**	–
Impairment loss on goodwill	16	**(19,179)**	–
Impairment loss on trade receivables	20	**(9,667)**	(478)
Impairment loss on property, plant and equipment	12	**(1,521)**	–
Impairment loss on prepayments, other receivables and other assets	21	**(881)**	–
Finance costs	6	**(39,865)**	(18,963)
Share of losses of associates	17	**(1,014)**	(151)
PROFIT/(LOSS) BEFORE TAX	7	**(648,142)**	16,469
Income tax expense	9	**(997)**	(8,660)
PROFIT/(LOSS) AND TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**(649,139)**	7,809
Profit/(loss) attributable to:			
Owners of the Company		**(395,786)**	8,450
Non-controlling interests		**(253,353)**	(641)
		(649,139)	7,809
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY:			
— Basic and diluted	11	**RMB(0.172)**	RMB0.004

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	235,105	130,599
Investment properties	13	90,267	94,334
Prepaid land lease payments	14	350,017	358,956
Intangible assets	15	657,823	1,010,669
Prepayments, other receivables and other assets	21	13,280	13,141
Goodwill	16	–	19,179
Investments in associates	17	376,046	375,399
Payments in advance	18	90,237	156,666
Deferred tax assets	29	9,499	9,737
Restricted deposits	22	2,524	2,560
Total non-current assets		1,824,798	2,171,240
CURRENT ASSETS			
Inventories	19	54,019	129,203
Trade receivables	20	276,663	433,109
Prepayments, other receivables and other assets	21	45,154	68,933
Pledged deposits	22	–	1,129
Cash and bank balances	22	100,176	29,356
Total current assets		476,012	661,730
CURRENT LIABILITIES			
Trade and bills payables	23	82,648	196,291
Contract liabilities	24	5,925	–
Other payables and accruals	25	112,648	111,428
Tax payables		31,811	30,970
Interest-bearing bank and other borrowings	26	223,388	174,403
Total current liabilities		456,420	513,092
NET CURRENT ASSETS		19,592	148,638
TOTAL ASSETS LESS CURRENT LIABILITIES		1,844,390	2,319,878

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	26	**184,250**	224,500
Deferred tax liabilities	29	**11,874**	12,226
Deferred income	27	**5,060**	5,270
Provision for rehabilitation	28	**15,143**	17,100
Total non-current liabilities		**216,327**	259,096
Net assets		**1,628,063**	2,060,782
EQUITY			
Equity attributable to owners of the Company			
Issued capital	30	**22,768**	18,349
Reserves	32	**1,507,568**	1,725,019
		1,530,336	1,743,368
Non-controlling interests		**97,727**	317,414
Total equity		**1,628,063**	2,060,782

Wu Jing
Director

Gu Weiwen
Director

	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(c))	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/ (accumulated losses) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 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 income/(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 (note 31)	–	–	–	–	142	–	–	–	142	–	142
Transfer of share option reserve upon the forfeiture or expiry of share options	–	–	–	–	(805)	–	–	805	–	–	–
At 31 December 2017 and 1 January 2018	18,349	1,553,169*	27,012*	807*	1,000*	(19,048)*	26,636*	135,443*	1,743,368	317,414	2,060,782
Effect of adoption of IFRS 9	–	–	–	–	–	–	–	(6,146)	(6,146)	(47)	(6,193)
At 31 December 2017 and 1 January 2018 (restated)	18,349	1,553,169	27,012	807	1,000	(19,048)	26,636	129,297*	1,737,222	317,367	2,054,589
Loss and total comprehensive loss for the year	–	–	–	–	–	–	–	(395,786)	(395,786)	(253,353)	(649,139)
Issue of new shares	4,419	148,262	–	–	–	–	–	–	152,681	–	152,681
Transfer from reserves	–	–	96	–	–	–	–	(96)	–	–	–
Establishment for safety fund surplus reserve	–	–	–	43	–	–	–	(43)	–	–	–
Utilisation of safety fund	–	–	–	(10)	–	–	–	10	–	–	–
Equity-settled share option arrangements (note 31)	–	–	–	–	36,219	–	–	–	36,219	–	36,219
Transfer of share option reserve upon the forfeiture or expiry of share options	–	–	–	–	(1,000)	–	–	1,000	–	–	–
Establishment of a subsidiary	–	–	–	–	–	–	–	–	–	60	60
Acquisition of a subsidiary (note 34)	–	–	–	–	–	–	–	–	–	33,653	33,653
At 31 December 2018	22,768	1,701,431*	27,108*	840*	36,219	(19,048)*	26,636*	(265,618)*	1,530,336	97,727	1,628,063

* These reserve accounts comprise the consolidated reserves of RMB1,507,568,000 (2017: RMB1,725,019,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**(648,142)**	16,469
Adjustments for:			
Depreciation of items of property, plant and equipment	12	**12,045**	10,518
Depreciation of investment properties	13	**4,067**	4,067
Amortisation of prepaid land lease payments	14	**8,939**	1,821
Amortisation of intangible assets	15	**358**	12,050
Share of losses of associates	17	**1,014**	151
Impairment loss on trade receivables	20	**9,667**	478
Impairment loss on prepayment, other receivables and other assets	21	**881**	–
Impairment loss on goodwill	16	**19,179**	–
Impairment loss on property, plant and equipment	12	**1,521**	–
Impairment loss on intangible assets	15	**517,954**	–
Deferred income released to profit or loss	27	**(210)**	(210)
Equity-settled share option expense	31	**36,219**	142
Finance costs	6	**39,865**	18,963
Unrealised foreign exchange losses/(gains), net		**187**	(1,343)
Bank interest income	5	**(195)**	(514)
		3,349	62,592
Decrease/(increase) in trade receivables		**140,586**	(409,780)
Decrease in inventories		**75,184**	50,158
Decrease in prepayments, other receivables and other assets		**24,061**	14,754
Increase/(decrease) in trade and bills payables		**(113,643)**	43,141
Increase/(decrease) in other payables and accruals		**(15,281)**	26,914
Increase in contract liabilities		**5,925**	–
Cash from/(used in) operations		**120,181**	(212,221)
Income tax paid		**(270)**	(2,593)
Interest paid		**(34,614)**	(16,463)
Interest received		**195**	514
Net cash flows from/(used in) operating activities		**85,492**	(230,763)

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		**(50,936)**	(31,747)
Acquisition of a subsidiary	34	**1**	69
Acquisition of associates		**–**	(375,550)
Investment in an associate		**(1,661)**	–
Purchase of land use rights		**–**	(119,367)
Refund of payment in advance		**–**	152,041
Refund of deposits for acquisition of an associate		**–**	50,000
Decrease in restricted deposits		**1,165**	92,992
Net cash flows used in investing activities		**(51,431)**	(231,562)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital injection by a non-controlling shareholder		**60**	–
Proceeds from issue of shares	30	**29,499**	135,470
Proceeds from/(repayment of) a shareholder loan		**(1,348)**	2,898
Proceeds from settlement of a receivable from a shareholder		**–**	94,853
Proceeds from bank and other borrowings		**137,297**	411,801
Repayment of bank and other borrowings		**(128,562)**	(215,580)
Net cash flows from financing activities		**36,946**	429,442
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**71,007**	(32,883)
Cash and cash equivalents at beginning of the year		**29,356**	60,896
Effect of foreign exchange rate changes, net		**(187)**	1,343
CASH AND CASH EQUIVALENTS AT END OF YEAR	22	**100,176**	29,356

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 Unit 1302, 13/F., Golden Centre, 188 Des Voeux Road Central, Hong Kong.

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

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[1] ("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 2010	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
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

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
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
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
Vigoroso Holdings Limited ("Vigoroso Holdings")	BVI 10 January 2017	US$1	100	Investment holding
Lichuan Lotus Construction Material Co., Ltd. 利川市荷花建材有限公司[2] ("Lotus Materials")	PRC/Mainland China 20 December 2012	RMB12,000,000	80	Mining exploration, processing and sale of marble stones

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

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

During the year, the Group acquired the entire equity interests in Vigoroso Holdings 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.

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 2018. 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.

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.

IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfers of Investment Property*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014–2016 Cycle	Amendments to IFRS 1 and IAS 28

Other than as explained below regarding the impact of IFRS 9, IFRS 15 and the amendments to IFRS 15, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

Further information about IFRS 9 and IFRS 15 applied by the Group is described below:

(a) IFRS 9 *Financial Instruments replaces* IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

Classification and measurement
The following information sets out the impacts of adopting IFRS 9 on the consolidated statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("ECLs").

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES — *continued*

(a) — *continued*

Classification and measurement — continued

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

	Note	IAS 39 measurement Category	IAS 39 measurement Amount RMB'000	Re-classification RMB'000	ECL RMB'000	IFRS 9 measurement Amount RMB'000	IFRS 9 measurement Category
Financial assets							
Trade receivables	(i)	L&R[1]	433,109	–	(6,193)	426,916	AC[2]
Financial assets included in prepayments, other receivables and other assets		L&R	26,680	–	–	26,680	AC
Cash and cash equivalents		L&R	29,356	–	–	29,356	AC
			489,145	–	(6,193)	482,952	
Other assets							
Deferred tax assets			9,737	–	–	9,737	
Total assets			2,832,970	–	(6,193)	2,826,777	
Financial liabilities							
Trade payables		AC	196,291	–	–	196,291	AC
Other payables and accruals		AC	58,687	–	–	58,687	AC
Interest-bearing bank and other borrowings		AC	398,903	–	–	398,903	AC
			653,881	–	–	653,881	
Other liabilities							
Deferred tax liabilities			12,226	–	–	12,226	
Total liabilities			772,188	–	–	772,188	

1 L&R: Loans and receivables
2 AC: Financial assets or financial liabilities at amortised cost

Note:

(i) The Group has remeasured the carrying amount of the trade receivables based on the ECL allowance.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *— continued*

(a) *— continued*

Impairment

The following table reconciles the aggregate opening impairment allowances under IAS 39 to the ECL allowances under IFRS 9. Further details are disclosed in note 20 to the financial statements.

	Impairment allowances under IAS 39 at 31 December 2017	Re-measurement	**ECL allowances under IFRS 9 at 1 January 2018**
	RMB'000	RMB'000	**RMB'000**
Trade receivables	11,059	6,193	**17,252**

Impact on retained earnings

The impact of transition to IFRS 9 on retained earnings is as follows:

	RMB'000
Balance as at 31 December 2017 under IAS 39	135,443
Recognition of expected credit losses for trade receivables under IFRS 9	(6,146)
Balance as at 1 January 2018 under IFRS 9	129,297

(b) IFRS 15 and its amendments replace IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a 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 disclosures are included in note 5 to the financial statements. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group has adopted IFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of IFRS 15 was recognised as an adjustment to the opening balance of accumulated losses as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 18 and related interpretations.

There was no financial impact of the transition to IFRS 15 on the Group's accumulated losses at 1 January 2018. However, upon adoption of IFRS 15, the Group recognised revenue-related contract liabilities for the unsatisfied performance obligation which were previously recognised as "Advances from customers" under "Other payables and accruals". Accordingly, upon adoption of IFRS 15, "Contract liabilities" were increased by RMB8,459,000 and "Advances from customers" included in "Other payables and accruals" were decreased by RMB8,459,000 at the date of initial application of IFRS 15 (1 January 2018).

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

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

Amendments to IFRS 3	*Definition of a Business*[2]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material*[2]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015–2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

IFRIC 23 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.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs — *continued*

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease* , SIC-15 *Operating Leases — Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two 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, or relates to a class of property, plant and equipment to which the revaluation model is applied. 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 will adopt IFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in IFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying IAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. As at 31 December 2018, the Group had payment commitments under non-cancellable operating leases of approximately RMB4,668,000 as disclosed in note 37 to the financial statements. Based on the detailed assessment prepared by the Group on the impact of adoption of IFRS 16, the Group expects that the adoption of IFRS 16 would not have a material impact on the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investment in an associate

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of an associate is included in the consolidated profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's investment in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of an associate is included as part of the Group's investment in an associate.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Business combinations and goodwill — *continued*

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

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

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

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

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

Merger accounting for business combinations under common control

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Fair value measurement

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

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, 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.

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.

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 are determined in accordance with the production plans of the entity concerned and the proved and probable reserves of mines using the UOP method.

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

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

Construction in progress represents items of property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowing funds 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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 marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as financial assets at amortised cost (debt instruments).

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. During the year ended 31 December 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 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 (policies under IFRS 9 applicable from 1 January 2018 and policies under IAS 39 applicable before 1 January 2018)

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018) — *continued*

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables that contain a significant financing component, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018)

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

Financial assets carried at amortised cost

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Group's financial liabilities include trade and other payables and interest-bearing bank loans.

Subsequent measurement

The subsequent measurement of the Group's Loans and borrowings is as follows:

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 (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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 (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Financial assets and financial liabilities are offset and the net amount is 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Inventories

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

Cash and cash equivalents

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

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 People’s Republic of China (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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Income tax

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Income tax — *continued*

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

Deferred tax assets and deferred tax liabilities are offset if 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.

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 (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Revenue recognition (applicable from 1 January 2018) — *continued*

(a) *Sale of goods*

Revenue from the sale of goods is recognised at the point in time when control of the products is transferred to the customer, generally on delivery of the goods.

(b) *Provision of warehousing and logistics services*

Revenue from the provision of warehousing and logistics services is recognised over time when the relevant service has been provided to which the Group has the right to invoice.

Other income

Rental income is recognised on a time proportion basis over the lease terms.

Interest income is recognised 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.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Revenue recognition (applicable before 1 January 2018)

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — *continued*

Share-based payments — *continued*

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.

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).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

3. SIGNIFICANT ACCOUNTING ESTIMATES

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

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2018 was nil (2017: RMB19,179,000). Further details are given in note 16.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by customer type and rating).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 20 to the financial statements.

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.

3. SIGNIFICANT ACCOUNTING ESTIMATES — *continued*

Estimation uncertainty — *continued*

Depreciation of mining right and properties

Mining right and property 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.

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.

Mineral 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.

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% (2017: 6.13%) as at 31 December 2018 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. Further details are given in note 28 to the financial statements.

3. SIGNIFICANT ACCOUNTING ESTIMATES — *continued*

Estimation uncertainty — *continued*

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. Further details are given in note 19 to the financial statements.

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. Non-financial assets with definite lives 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.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three (2017: three) reportable operating segments as follows:

(a) the marble products segment produces marble blocks and slabs mainly for further processing or trading;

(b) the commodity trading segment conducts the trading business of commodities; and

(c) the warehousing logistics segment engaged in the business of cargo handling, warehousing, and logistics.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about 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.

4. OPERATING SEGMENT INFORMATION — *continued*

Year ended 31 December 2018

	Marble products RMB'000	Commodity trading RMB'000	Warehousing logistics RMB'000	Total RMB'000
SEGMENT REVENUE	86,116	449,435	1,241	536,792
Segment results	(534,672)	(2,114)	(22,340)	(559,126)
Reconciliation:				
Interest income				195
Foreign exchange gain, net				667
Finance costs				(39,865)
Corporate and other unallocated expenses				(50,013)
Loss before tax				(648,142)
Segment assets	1,380,957	224,639	108,793	1,714,389
Reconciliation:				
Deferred tax assets				9,499
Cash and cash equivalents				100,176
Corporate and other unallocated assets				476,746
Total assets				2,300,810
Segment liabilities	599,175	27,826	2,061	629,062
Reconciliation:				
Tax payable				31,811
Deferred tax liabilities				11,874
Total liabilities				672,747
OTHER SEGMENT INFORMATION				
Impairment losses recognised in the statement of profit or loss	528,456	1,465	19,281	549,202
Share of losses of associates (note 17)	1,014	–	–	1,014
Investments in associates (note 17)	376,046	–	–	376,046
Depreciation and amortisation	21,538	–	3,871	25,409
Capital expenditure*	122,097	–	–	122,097

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

4. OPERATING SEGMENT INFORMATION — *continued*

Year ended 31 December 2017

	Marble products RMB'000	Commodity trading RMB'000	Warehousing logistics 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
Finance 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 payments including assets from the acquisition of a subsidiary.

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.

	2018 RMB'000	2017 RMB'000
Domestic:		
Mainland China*	536,745	1,262,210
Overseas	47	8,848
	536,792	1,271,058

* 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:

	2018 RMB'000	2017 RMB'000
Customer A	346,107	–
Customer B	55,217	*
Customer C	–	186,418
Customer D	–	180,222
Customer E	–	159,777

* Less than 10% of the total revenue

5. REVENUE, OTHER INCOME AND GAINS

Entity-wide disclosures

(a) An analysis of revenue is as follows:

	2018 RMB'000	2017 RMB'000
Revenue from contracts with customers	**535,551**	–
Sales of goods	**–**	150,477
Trading activities	**–**	1,119,648
Provision of warehousing and logistics services	**1,241**	933
	536,792	1,271,058

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

	RMB'000
Type of goods or services	
Sale of one-side-polished slabs	**61,293**
Sale of cut-to-size slabs	**10,017**
Sale of marble blocks	**14,806**
Commodity trading	**449,435**
Provision of warehousing and logistics services	**1,241**
Total revenue from contracts with customers	**536,792**
Geographical markets	
Domestic* — Mainland China	**536,745**
Overseas	**47**
Total revenue from contracts with customers	**536,792**

* The place of domicile of the Group's principal operating subsidiaries is Mainland China.

Timing of revenue recognition	
Goods transferred at a point in time	**535,551**
Services transferred over time	**1,241**
Total revenue from contracts with customers	**536,792**

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sale of goods	**8,459**

5. REVENUE, OTHER INCOME AND GAINS — *continued*

Revenue from contracts with customers — *continued*

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of goods

The performance obligation is satisfied upon delivery of goods and payment is generally due within 30 to 90 days from delivery.

Provision of warehousing and logistics services

The performance obligation is satisfied over time as services are rendered and a proportional payment in advance is normally required. Payment is generally due upon completion of services.

At 31 December 2018, the remaining performance obligations (unsatisfied or partially unsatisfied) are expected to be recognised within one year. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

An analysis of other income and gains is as follows:

	2018	2017
	RMB'000	RMB'000
Foreign exchange gain, net	**667**	8,894
Rental income	**7,662**	7,662
Labour outsourcing service income	**–**	4,487
Compensation for breach of contracts	**–**	3,232
Bank interest income	**195**	514
Deferred income released to profit or loss (note 27)	**210**	210
Government grants*	**256**	10
Miscellaneous	**202**	130
Total other income and gains	**9,192**	25,139

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

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2018 RMB'000	2017 RMB'000
Interest on bank loans	**18,128**	11,575
Interest on other borrowings	**20,616**	6,182
Unwinding of a discount for rehabilitation (note 28)	**1,121**	1,041
Interest on bills receivable discounted (note 20)	**–**	165
	39,865	18,963

7. PROFIT/(LOSS) BEFORE TAX

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

	Notes	2018 RMB'000	2017 RMB'000
Cost of inventories sold		**497,909**	1,194,867
Cost of services provided		**3,602**	227
		501,511	1,195,094
Employee benefit expense (including directors' and chief executive's remuneration set out in note 8):			
Wages and salaries		**15,290**	24,239
Equity-settled share option expense	31	**36,219**	142
Welfare and other benefits		**364**	828
Pension scheme contributions			
— Defined contribution fund		**1,322**	1,359
Housing fund			
— Defined contribution fund		**566**	914
Total employee benefit expense		**53,761**	27,482
Depreciation of items of property, plant and equipment	12	**12,045**	10,518
Depreciation of investment properties	13	**4,067**	4,067
Amortisation of prepaid land lease payments	14	**8,939**	1,821
Amortisation of intangible assets	15	**358**	12,050
Depreciation and amortisation expenses		**25,409**	28,456
Impairment losses recognised in:			
Trade receivables	20	**9,667**	478
Intangible assets	15	**517,954**	–
Goodwill	16	**19,179**	–
Property, plant and equipment	12	**1,521**	–
Prepayments, other receivables and other assets	21	**881**	–
Total Impairment losses recognised		**549,202**	478
Minimum lease payments under operating leases:			
— Office		**7,090**	7,215
— Warehouses		**168**	842
— Parcels of land		**819**	819
Auditor's remuneration		**3,100**	2,900
Foreign exchange gain, net		**(667)**	(8,894)
Rental income		**(7,662)**	(7,662)
Bank interest income		**(195)**	(514)

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

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "HKSE"), 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:

	2018	2017
	RMB'000	RMB'000
Fees	**569**	562
Other emoluments:		
Salaries, allowances and benefits in kind	**1,107**	1,162
Equity-settled share option expense	**13,133**	–
Pension scheme contributions	**104**	88
	14,344	1,250
	14,913	1,812

(a) Independent non-executive directors

The fees and equity-settled share option expense paid to independent non-executive directors during the year were as follows:

	Fees	**Equity–settled share option expense**	**Total**
	RMB'000	RMB'000	RMB'000
2018			
Mr. Hui Yat On	**158**	**145**	**303**
Ms. Lung Yuet Kwan	**175**	**145**	**320**
Ms. Zhang Xiaohan	**105**	**113**	**218**
	438	**403**	**841**
2017			
Mr. Hui Yat On	145	–	145
Ms. Lung Yuet Kwan	101	–	101
Ms. Zhang Xiaohan	61	–	61
Mr. Liu Jianhua	65	–	65
Mr. Wang Hengzhong	60	–	60
	432	–	432

8. 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
2018					
Executive directors:					
Ms. Wu Jing	–	526	16	3,603	4,145
Mr. Gu Weiwen	–	144	62	3,603	3,809
Mr. Leung Ka Kit	–	315	16	3,603	3,934
Mr. Zhang Jian	–	122	10	1,776	1,908
	–	1,107	104	12,585	13,796
Non-executive director:					
Mr. Gu Zengcai	131	–	–	145	276
	131	1,107	104	12,730	14,072
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	–	64	9	–	73
	–	1,162	88	–	1,250
Non-executive director:					
Mr. Gu Zengcai	130	–	–	–	130
	130	1,162	88	–	1,380

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2017: Nil).

8. 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 three directors (2017: two directors), details of whose remuneration are set out in note 8 (b) above. Details of the remuneration for the year of the remaining two (2017: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2018	2017
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**368**	914
Equity-settled share option expense	**6,452**	142
Pension scheme contributions	**47**	36
	6,867	1,092

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	
	2018	2017
Nil to HK$1,000,000	**–**	3
HK$1,000,001 to HK$2,000,000	**–**	–
HK$2,000,001 to HK$3,000,000	**–**	–
HK$3,000,001 to HK$4,000,000	**2**	–
	2	3

During the year, share options were granted to two non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 31 to the financial statements. The fair value of such options, which has been recognised in profit or loss, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

9. 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:

	2018 **RMB'000**	2017 RMB'000
Current — Mainland China		
Charge for the year	**1,111**	8,903
Deferred (note 29)	**(114)**	(243)
	997	8,660

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

	2018 **RMB'000**	2017 RMB'000
Profit/(loss) before tax	**(648,142)**	16,469
Tax at the respective statutory tax rates:		
— Mainland China subsidiaries, at 25%	**(150,549)**	4,740
— Hong Kong subsidiary, at 16.5%	**(7,581)**	(411)
Non-deductible expenses	**2,659**	3,196
Loss not subject to tax	**142,424**	406
Tax losses not recognised (note 29)	**14,044**	729
Income tax expense	**997**	8,660

10. DIVIDENDS

At a meeting of the board of directors held on 29 March 2019, the directors resolved not to declare any dividend to shareholders for the year ended 31 December 2018 (2017: Nil).

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

The calculation of basic loss per share for the year ended 31 December 2018 is based on the loss for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 2,304,045,205 (2017: 2,014,386,386) 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 2018 and 2017 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.

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Mining infrastructure RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2018							
Cost:							
At 1 January 2018	27,382	78,782	9,457	12,497	16,314	23,310	167,742
Additions	–	207	1,826	–	–	117,059	119,092
Acquisition of a subsidiary (note 34)	214	1,304	3	537	–	–	2,058
Disposals	–	–	(877)	–	(3,078)	–	(3,955)
At 31 December 2018	27,596	80,293	10,409	13,034	13,236	140,369	284,937
Accumulated depreciation and impairment:							
At 1 January 2018	5,966	20,016	6,208	4,513	440	–	37,143
Provided for the year (note 7)	2,517	5,727	2,454	1,167	180	–	12,045
Disposals	–	–	(877)	–	–	–	(877)
Impairment recognised during the year (note 7)	102	1,419	–	–	–	–	1,521
At 31 December 2018	8,585	27,162	7,785	5,680	620	–	49,832
Net carrying amount:							
At 1 January 2018	21,416	58,766	3,249	7,984	15,874	23,310	130,599
At 31 December 2018	19,011	53,131	2,624	7,354	12,616	140,369	235,105
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	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	381	2,526	644	128	–	–	3,679
Provided for the year (note 7)	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

As at 31 December 2018, the Group's property, plant and equipment with a carrying amount of RMB12,952,000 (2017: RMB14,359,000) was pledged as security for certain other borrowings granted to the Group (note 26(a)).

13. INVESTMENT PROPERTIES

	2018 RMB'000	2017 RMB'000
Carrying amount at 1 January	**94,334**	98,401
Depreciation provided for the year (note 7)	**(4,067)**	(4,067)
Carrying amount at 31 December	**90,267**	94,334

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

As at 31 December 2018, the fair value of the investment properties was estimated to be approximately RMB102,800,000 (2017: RMB103,430,000). 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.

14. PREPAID LAND LEASE PAYMENTS

	2018 RMB'000	2017 RMB'000
Carrying amount at 1 January	**367,895**	13,537
Acquisition of a subsidiary	**–**	64,400
Additions	**–**	291,779
Amortisation during the year (note 7)	**(8,939)**	(1,821)
Carrying amount at 31 December	**358,956**	367,895
Portion classified as current assets (note 21)	**(8,939)**	(8,939)
Non-current portion	**350,017**	358,956

As at 31 December 2018, the Group's prepaid land lease payments with a carrying amount of RMB298,457,000 (2017: RMB306,104,000) were pledged as security for certain bank and other borrowings granted to the Group (note 26(a)). The land use rights are held under medium lease terms.

15. INTANGIBLE ASSETS

	Mining rights RMB'000	Software RMB'000	Total RMB'000
31 December 2018			
Cost			
At 1 January 2018	1,026,703	2,006	1,028,709
Acquisition of a subsidiary (note 34)	165,466	–	165,466
At 31 December 2018	1,192,169	2,006	1,194,175
Accumulated amortisation and impairment:			
At 1 January 2018	17,335	705	18,040
Amortisation provided during the year (note 7)	148	210	358
Impairment (note 7)	517,954	–	517,954
At 31 December 2018	535,437	915	536,352
Net carrying amount			
At 1 January 2018	1,009,368	1,301	1,010,669
At 31 December 2018	656,732	1,091	657,823
31 December 2017			
Cost			
At 1 January 2017 and 31 December 2017	1,026,703	2,006	1,028,709
Accumulated amortisation:			
At 1 January 2017	5,495	495	5,990
Amortisation provided during the year (note 7)	11,840	210	12,050
At 31 December 2017	17,335	705	18,040
Net carrying amount			
At 1 January 2017	1,021,208	1,511	1,022,719
At 31 December 2017	1,009,368	1,301	1,010,669

(a) As at 31 December 2018, the Group's mining rights of Zhangxi Mine with a carrying amount of RMB116,627,000 (2017: RMB116,627,000) was pledged as security for certain bank loans granted to the Group (note 26(a)).

15. INTANGIBLE ASSETS — *continued*

(b) Impairment

In accordance with the Group's accounting policies, each asset or cash-generating unit ("CGU") is evaluated annually at 31 December to determine whether there are any indications of impairment. If any such indications of impairment exist, a formal estimate of the recoverable amount is performed.

In assessing whether an impairment is required, the carrying value of the asset or CGU is compared with its recoverable amount. The recoverable amount is the higher of the CGU's fair value less costs of disposal and value in use ("VIU"). During the year, due to the revision of the overall development plan for the marble industry carried out by Guanyang County Government ("Guanyang Government") for the purpose of strengthening control over environment protection, effective and proper utilisation of natural resources, Guanyang Government decided not to renew the Group's mining rights of Guiguan Mine and Wenshi Mine upon their expiry in 2018. Management has performed impairment assessment on the carrying amounts of the mining rights of Wenshi Mine and Guiguan Mine. The recoverable amounts of the mining rights of Wenshi Mine and Guiguan Mine were estimated to be nil as no future cash flows were expected to be generated from the continuing use of these assets.

An impairment loss of RMB517,954,000 was recognised during the year to fully write off the carrying amounts of the mining rights of Wenshi Mine and Guiguan Mine as at 31 December 2018.

16. GOODWILL

	RMB'000
Carrying amount at 31 December 2017 and 1 January 2018	19,179
Impairment (note 7)	(19,179)
Carrying amount at 31 December 2018	–

Goodwill, which arose from the acquisition of Jiangsu Taifeng by the Group, represented the excess of the cost of the business combination over the Company's interest in the fair value of Jiangsu Taifeng's identifiable assets and liabilities as at the date of the acquisition.

16. GOODWILL — *continued*

Impairment testing of goodwill

Goodwill acquired through business combination is allocated to the Jiangsu Taifeng CGU for impairment testing.

The recoverable amount of the Jiangsu Taifeng CGU as at 31 December 2018 of RMB107,930,000 (2017: RMB135,000,000) has been determined based on a value-in-use calculation using cash flow projections based on the key assumptions as follows:

The recoverable amount of the Jiangsu Taifeng CGU 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% (2017: 13%).

Growth rate — The growth rate used to extrapolate the cash flows beyond the five-year period is 3% (2017:3%), 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.

As the recoverable amount of the Jiangsu Taifeng CGU is lower than its carrying amount of RMB127,211,000 as at 31 December 2018, impairment losses of RMB19,179,000 and RMB102,000 were recognised during the year to fully write down the goodwill arising from the acquisition of Jiangsu Taifeng by the Group and the carrying amount of property, plant and equipment as at 31 December 2018.

In relation to the Jiangsu Taifeng CGU that was impaired during the year, any variation in the key assumptions above would either result in further impairment or lead to a reversal of impairment.

17. INVESTMENTS IN ASSOCIATES

	2018 RMB'000	2017 RMB'000
Share of net assets	**376,046**	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 Co., Ltd. ("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:

	2018 RMB'000	2017 RMB'000
Current assets	**2,078**	373
Non-current assets	**571,056**	571,056
Current liabilities	**(1,965)**	–
Net assets	**571,169**	571,429
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	**49%**	49%
Group's share of net assets of the associate	**279,873**	280,000
Carrying amount of the investment	**279,873**	280,000

17. INVESTMENTS IN ASSOCIATES — *continued*

	2018 RMB'000	Seven-month period from the acquisition date to 31 December 2017 RMB'000
Revenue	**–**	–
Loss and total comprehensive loss for the year/period	**(260)**	–
Dividend received	**–**	–

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

	2018 RMB'000	2017 RMB'000
Share of the associates' losses and total comprehensive income for the year	**(887)**	(151)
Aggregate carrying amount of the Group's investments in the associates	**96,173**	95,399

18. PAYMENTS IN ADVANCE

	2018 RMB'000	2017 RMB'000
In respect of the purchase of:		
Property, plant and equipment	**90,237**	156,666

The balance mainly represented prepayments paid to independent third parties for the purchase of property, plant and equipment and the construction of a processing plant in Jiangxi Province and a logistics warehouse in Jiangsu Province, the PRC.

19. INVENTORIES

	2018 RMB'000	2017 RMB'000
Finished goods	**39,052**	107,409
Work in progress	**13,983**	21,182
Materials and supplies	**984**	612
	54,019	129,203

20. TRADE RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	**303,582**	444,168
Impairment	**(26,919)**	(11,059)
	276,663	433,109

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.

An ageing analysis of the trade receivables as at the end of the reporting periods, based on the invoice date and net of loss allowance, is as follows:

	2018 RMB'000	2017 RMB'000
Within 1 month	**269,069**	213,571
1 to 3 months	**4,461**	211,382
3 to 6 months	**3,133**	3,711
6 to 12 months	**–**	1,189
Over 1 year	**–**	3,256
	276,663	433,109

The movements in the loss allowance for impairment of trade receivables are as follows:

	2018 RMB'000	2017 RMB'000
At beginning of year	**11,059**	10,581
Effect of adoption of IFRS 9	**6,193**	–
At beginning of year (restated)	**17,252**	10,581
Impairment losses, net (note 7)	**9,667**	478
At end of year	**26,919**	11,059

20. TRADE RECEIVABLES — *continued*

Impairment under IFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018

		Past due		
	Current	Less than 1 year	Over 1 year	Total
Expected credit loss rate	0.41%	100%	100%	
Gross carrying amount (RMB'000)	277,802	6,186	19,594	303,582
Expected credit losses (RMB'000)	1,139	6,186	19,594	26,919

Impairment under IAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade receivables, which was measured based on incurred credit losses under IAS 39, as at 31 December 2017 was a provision for individually impaired trade receivables of RMB478,000 with a carrying amount before provision of RMB3,306,000.

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 the 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 that has specifically been affected by the weak market condition, may be delayed for a longer-than-expected period or part of the receivables may not be recoverable. Despite such provision and longer-than-expected repayment periods, the Group will initiate necessary actions to recover these receivables in part or in full.

20. TRADE RECEIVABLES — *continued*

Impairment under IAS 39 for the year ended 31 December 2017 — *continued*

The ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under IAS 39 is as follows:

	2017 RMB'000
Neither past due nor impaired	424,574
Past due but not impaired:	
Less than 1 month past due	2,030
Over 1 month and less than 3 months past due	1,310
Over 3 months past due	5,195
	433,109

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.

During the year, there were no discounted bills. The Group has recognised interest expense of RMB165,000 (note 6) on discounted bills in 2017.

21. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	Notes	2018 RMB'000	2017 RMB'000
Current portion:			
Prepayments in respect of:			
— Processing fee		**2,419**	4,864
— Warehouse rental		**1,580**	1,625
— Lease of parcels of land	(a)	**949**	819
— Prepaid land lease payments to be amortised within one year (note 14)		**8,939**	8,939
— Purchase of materials and supplies		**1,206**	1,890
— Purchase of marble blocks and slabs		**16,398**	23,180
— Service fee		**1,791**	936
Deposits		**3,196**	5,614
Deductible input value-added tax		**916**	9,121
Receivables from labour outsourcing service		**–**	4,756
Performance security		**3,000**	3,000
Other receivables		**5,641**	4,189
		46,035	68,933
Impairment allowance (note 7)	(c)	**(881)**	–
		45,154	68,933
Non-current portion:			
Prepayments in respect of			
— Lease of parcels of land	(a)	**8,220**	7,869
— Cultivated land used tax	(b)	**5,060**	5,272
		13,280	13,141

Notes:

(a) The balances represent prepayments made to villagers for the use of parcels of land for mining activities at the marble mines located in Yongfeng County, Jiangxi Province, the PRC ("Yongfeng Mine") and in Lichuan County, Hubei Province, the PRC ("Lichuan Mine").

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

(c) An impairment loss of RMB881,000 for financial assets in prepayments, other receivables and other assets was recognised during the year.

Where applicable, an impairment analysis is performed at each reporting date by considering expected credit losses, which are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied as at 31 December 2018 ranged from 0.5% to 10%.

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

	2018 RMB'000	2017 RMB'000
Cash on hand and cash at banks	**102,700**	29,356
Time deposits with original maturity of:		
— over three months	**–**	3,689
	102,700	33,045
Less:		
Restricted deposits for environmental rehabilitation deposits	**(2,524)**	(2,560)
Pledged deposits for:		
— interest-bearing bank loans (note 26(a))	**–**	(1,129)
	100,176	29,356

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

	2018 RMB'000	2017 RMB'000
RMB	**101,590**	32,258
HK$	**1,029**	620
US$	**81**	167
	102,700	33,045

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.

23. TRADE AND BILLS PAYABLES

	2018 RMB'000	2017 RMB'000
Trade payables	**42,298**	64,134
Bills payable	**40,350**	132,157
	82,648	196,291

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

	2018 RMB'000	2017 RMB'000
Within 1 month	**5,894**	106,957
1 to 2 months	**861**	436
2 to 3 months	**1,538**	961
Over 3 months	**74,355**	87,937
	82,648	196,291

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.

24. CONTRACT LIABILITIES

	2018 RMB'000
Contract liabilities	**5,925**

Contract liabilities include short-term advances received to deliver marble products. The decrease in contract liabilities in 2018 was mainly due to the decrease in short-term advances received from customers in relation to the delivery of marble products at the end of the year.

Changes in contract liabilities during the year are as follows:

	RMB'000
At 1 January 2018	**8,459**
Revenue recognised that was included in the contract liabilities at the beginning of the year	**(8,459)**
Increase due to cash received, excluding amounts recognised as revenue during the year	**5,925**
At 31 December 2018	**5,925**

25. OTHER PAYABLES AND ACCRUALS

	Notes	2018 RMB'000	2017 RMB'000
Current portion:			
Advances from customers		–	8,459
Payables relating to:			
Taxes other than income tax		26,149	25,796
Purchase of mining rights	(a)	18,600	18,600
Payroll and welfare		11,485	12,922
Consideration payable for acquisition of a subsidiary (note 34)		11,432	–
Purchase of property, plant and equipment		11,314	9,587
Professional fees		9,709	10,887
Mineral resources compensation fees		4,480	4,869
Security deposit		1,886	1,886
Distributors' earnest money		1,745	1,805
Due to a shareholder	(b)	1,550	2,898
Rental fees		1,473	2,263
Land occupation fee		–	380
Employee reimbursement		529	288
Advertisement fees		191	191
Interest payables relating to:			
Bank loans		5,987	1,857
Purchase of mining rights	(a)	3,707	3,707
Others		2,411	5,033
		112,648	111,428

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 balance represented the interest-free loan granted by the Company's director, Ms. Wu Jing in support of the Group's development. The borrowing is unsecured and has no fixed repayment terms.

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

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	2018 RMB'000	2017 RMB'000
Bank loans:			
Secured and guaranteed	(a)	**36,653**	54,952
Secured	(a)	**142,047**	92,390
Guaranteed	(b)	**4,188**	4,188
		182,888	151,530
Effective interest rate per annum (%)		**5.66–7.60**	5.66–7.13
Other borrowings:			
Secured and guaranteed	(a)	**220,000**	247,373
Unsecured	(c)	**4,750**	–
		224,750	247,373
Effective interest rate per annum (%)		**8.00-9.20**	6.52-9.00
Analysed into:			
Bank loans repayable:			
Within one year		**173,388**	147,030
In the second year		**9,500**	–
In the third to fifth years, inclusive		**–**	4,500
		182,888	151,530
Other borrowings repayable:			
Within one year		**50,000**	27,373
In the second year		**170,000**	50,000
In the third to fifth years, inclusive		**4,750**	170,000
		224,750	247,373
Total bank and other borrowings		**407,638**	398,903
Portion classified as current liabilities		**(223,388)**	(174,403)
Non-current portion		**184,250**	224,500

26. INTEREST-BEARING BANK AND OTHER BORROWINGS — *continued*

(a) The Group's bank loans and other borrowings of approximately RMB398,700,000 as at 31 December 2018 (2017: RMB394,715,000) were secured by certain assets with net carrying values as follows:

	Notes	2018 RMB'000	2017 RMB'000
Secured by:			
Property, plant and equipment	12	**12,952**	14,359
Prepaid land lease payments	14	**298,457**	306,104
Mining right of Zhangxi Mine	15	**116,627**	116,627
Time deposits	22	**–**	1,129
		428,036	438,219

The Group's secured bank loans and other borrowings of approximately RMB256,652,000 as at 31 December 2018 (31 December 2017: RMB302,325,000) 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 2018 (31 December 2017: RMB4,188,000) were guaranteed by an independent third party, Xiamen Siming Technique Financial Guarantee Co., Ltd., with a guarantee charge of RMB80,000 per annum.

(c) The Group's other borrowings of approximately RMB4,750,000 as at 31 December 2018 were borrowed from several independent third party individuals and bore interest at a fixed interest rate of 8% per annum.

27. DEFERRED INCOME

	RMB'000
Government grant	
At 1 January 2017	5,480
Released to profit or loss (note 5)	(210)
At 31 December 2017 and 1 January 2018	5,270
Released to profit or loss (note 5)	(210)
At 31 December 2018	5,060

Deferred revenue represents a government grant received by Jueshi Mining in respect of the 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.

28. PROVISION FOR REHABILITATION

	2018 RMB'000	2017 RMB'000
At the beginning of year	**17,100**	13,323
Addition	**–**	2,736
Unwinding of a discount (note 6)	**1,121**	1,041
Disposal	**(3,078)**	–
At the end of year	**15,143**	17,100

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 2017	886	714	212	6,020	830	2,645	11,307
Deferred tax assets credited/ (charged) to profit or loss during the year (note 9)	(298)	260	235	139	298	120	754
At 31 December 2017 and 1 January 2018	588	974	447	6,159	1,128	2,765	12,061
Deferred tax assets credited/ (charged) to profit or loss during the year (note 9)	(588)	280	29	911	(331)	–	301
At 31 December 2018	–	1,254	476	7,070	797	2,765	12,362

The Group has tax losses arising in Mainland China of RMB74,662,000 (2017: RMB18,486,000) 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.

29. DEFERRED TAX — *continued*

Deferred tax liabilities

	Fair value adjustment arising from business combination RMB'000	Excess book value of mining rights over tax amortisation RMB'000	Total RMB'000
At 1 January 2017	2,229	1,770	3,999
Deferred tax liabilities arising from business combination	10,040	–	10,040
Deferred tax charged/(credited) to profit or loss during the year (note 9)	(48)	559	511
At 31 December 2017 and 1 January 2018	12,221	2,329	14,550
Deferred tax charged/(credited) to profit or loss during the year (note 9)	(347)	534	187
At 31 December 2018	11,874	2,863	14,737

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:

	2018 RMB'000	2017 RMB'000
Gross deferred tax assets	**12,362**	12,061
Deferred tax liabilities	**(2,863)**	(2,324)
Net deferred tax assets	**9,499**	9,737
Gross deferred tax liabilities	**14,737**	14,550
Deferred tax assets	**(2,863)**	(2,324)
Net deferred tax liabilities	**11,874**	12,226

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 2018, 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.

At 31 December 2108, there was no unremitted earnings associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised (31 December 2017: RMB226,555,000).

30. SHARE CAPITAL

Shares

	2018 **RMB'000**	2017 RMB'000
Authorised:		
5,000,000,000 ordinary shares of HK$0.01 each		
(2017: 3,000,000,000 ordinary shares of HK$0.01 each)	**39,953**	23,651
Issued and fully paid:		
2,752,041,551 ordinary shares of HK$0.01 each		
(2017: 2,246,374,885 ordinary shares of HK$0.01 each)	**22,768**	18,349

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
As at 1 January 2018	2,246,374,885	18,349
Issue of new ordinary shares	47,000,000	380
Issue of new shares for acquisition of a subsidiary	458,666,666	4,039
As at 31 December 2018	2,752,041,551	22,768

Notes:

On 30 January 2018, the Company entered into the subscription agreement with the subscriber 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 net proceeds from the subscription of HK$36,472,000 (equivalent to approximately RMB29,499,000), of which RMB380,000 and RMB29,119,000 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 announcements dated 30 January and 14 February 2018.

On 19 December 2018, the Group allotted and issued an aggregate of 458,666,666 new ordinary shares of the Company as the consideration for the acquisition of the entire interests in Vigoroso Holdings (note 34). The aggregate fair value of the 458,666,666 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 RMB123,182,000, of which RMB4,039,000 and RMB119,143,000 were credited to the share capital and share premium account of the Company, respectively. Particulars of the above were set out in the Company's announcement dated 19 December 2018.

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. The final batch of 1,066,669 share options under the Pre-IPO Share Option Scheme expired without being exercised on 30 June 2018.

The Company also operated a new share option scheme (the "Share Option Scheme") which has been conditionally adopted by the written resolutions of the shareholders of the Company on 9 December 2013. The Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions that the Eligible Participants, including (i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries; (ii) any Directors (including non-executive Directors and independent non-executive Directors) of the Company or any of its subsidiaries; and (iii) any advisers, consultants, suppliers, customers and agents to the Company or any of its subsidiaries, had or may have made to the Group. The Share Option Scheme shall be valid and effective for a period of ten years from the date of its adoption.

The maximum number of unexercised share options currently permitted to be granted under the Share Option Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to Directors, chief executives, substantial shareholders or any of their respective associates are subject to approval by the independent non-executive directors (excluding the independent non-executive directors who are the grantees of the options). In addition, any grant of share options to substantial shareholders or independent non-executive directors or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue on the date of offer with an aggregate value (based on the closing price of the Company's shares quoted on the Hong Kong Stock Exchange (the "HKSE") at the date of grant) in excess of HK$5 million made within any 12-month period from the date of grant (inclusive) would be subject to shareholders' approval in a general meeting.

The offer of a grant of share options under the Share Option Scheme may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee.

The exercise price of share options is determinable by the board of Directors, but may not be less than the highest of (i) the nominal value of shares of the Company; (ii) the average closing price of the Company's shares for the five trading days immediately preceding the date of grant of the share options; and (iii) the HKSE closing price of the Company's shares on the date of grant of the share options.

On 4 January 2018 and 30 October 2018, the Company granted options to subscribe for 133,333,400 and 229,300,000 ordinary shares of HK$0.01 each under the Share Option Scheme to eligible directors, employees and other eligible participants, the exercise period of the share options granted is determinable by the Directors and commence effectively from the date of offer of the share options without vesting period. The exercise price of the share options granted is HK$0.854 and HK$0.399 each respectively.

31. SHARE OPTION SCHEMES — *continued*

The following share options were outstanding during the year:

	Notes	Weighted average exercise price HK$ per share	Number of options
As at 1 January 2018	(a)	2.390	1,066,669
Granted during the year	(b)	0.566	362,633,400
Expired during the year	(a)	2.390	(1,066,669)
As at 31 December 2018			362,633,400

Notes:

(a) The share options outstanding as at 1 January 2018 represented share options granted by the Company on 30 December 2013 at an exercise price of HK$2.390 per share. These 1,066,669 share options expired without being exercised on 30 June 2018.

(b) On 4 January and 30 October 2018, options to subscribe for a total of 133,333,400 and 229,300,000 shares with a nominal value of HK$0.01 each in the share capital of the Company were granted under the Share Option Scheme at exercise prices of HK$0.854 and HK$0.399, respectively.

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

2018:

Number of options	Exercise price per share HK$	Exercise period
133,333,400	0.854	From 4 January 2018 to 3 January 2020
229,300,000	0.399	From 30 October 2018 to 29 October 2020
362,633,400		

31. SHARE OPTION SCHEMES — *continued*

2017:

Number of options	Exercise price per share HK$	Exercise period
1,066,669	2.390	From 30 June 2017 to 30 June 2018

The Group had 362,633,400 share options exercisable as at 31 December 2018 (2017: 1,066,669). The Group recognised a share option expense of HK$42,336,000 (equivalent to approximately RMB36,219,000) during the year ended 31 December 2018 (a share option expense recognised in 2017: HK$180,000, equivalent to approximately RMB142,000).

The fair values of equity-settled share options granted were estimated and valued by independent professional valuers as at the dates of grant, using the binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the major inputs to the model used:

	Equity-settled share options granted on		
	4 January 2018	**30 October 2018**	9 December 2013
Dividend yield (%)	**–**	**–**	–
Expected volatility (%)	**54.41**	**53.97**	46.05~55.29
Risk-free interest rate (%)	**1.36**	**2.15**	0.26~1.23

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 362,633,400 share options outstanding under the 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 362,633,400 additional ordinary shares of the Company and additional share capital of HK$3,626,334 and share premium of HK$201,731,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 362,633,400 share options outstanding under the Share Option Scheme, which represented approximately 13.2% of the Company's shares in issue as at that date.

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 89 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.

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:

	2018 **RMB'000**	2017 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 interest:		
Guiguan Stone	**253,377**	641
Accumulated balances of non-controlling interest at the reporting date:		
Guiguan Stone	**4,037**	257,414

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

	Guiguan Stone	
	2018 **RMB'000**	2017 RMB'000
Revenue	**17,844**	49,363
Total expenses	**534,940**	50,671
Loss and total comprehensive loss for the year	**(517,096)**	(1,308)
Current assets	**25,436**	23,861
Non-current assets	**29,442**	571,931
Current liabilities	**(34,061)**	(63,062)
Non-current liabilities	**(12,578)**	(7,395)
Net cash flows from/(used in) operating activities	**(193)**	4,911
Net cash flows used in investing activities	**(226)**	(35,565)
Net cash flows from financing activities	**298**	30,602
Net decrease in cash and cash equivalents	**(121)**	(52)

34. ACQUISITION OF A SUBSIDIARY

On 19 December 2018, the Group acquired 100% equity interests in Vigoroso Holdings from Mr. Chen Yuhong, an independent individual and the then sole owner of Vigoroso Holdings. Vigoroso Holdings indirectly owns 80% equity interests in Lotus Materials, which holds the mining permit to a marble mine located at Shaxi County, Lichuan, Hubei Province, with an area of approximately 1.4565 square kilometres, which will expire on 22 August 2023. Vigoroso Holdings and its subsidiaries (together, "Vigoroso Group") are principally engaged in mining exploration of marble products.

The purchase consideration was in the form of cash, amounted to RMB11,432,000 and the allotment and issue of 458,666,666 ordinary shares by the Company at HK$0.305 per share at the acquisition date, amounting to HK$139,893,000 (equivalent to approximately RMB123,182,000) in aggregate. The acquisition was completed on 19 December 2018.

Particulars of the acquisition of the entire equity interests in Vigoroso Holdings were set out in the Company's announcements dated 29 August 2018 and 19 December 2018.

The acquisition of Vigoroso Group has been accounted for as an asset acquisition, as the acquisition did not have all required attributes of a business. The identified assets and liabilities as at the respective date of acquisition are as follows:

	RMB'000
Property, plant and equipment (note 12)	2,058
Prepayment in respect of lease of parcels of land	1,302
Mining rights (note 15)	165,466
Cash and bank balances	1
Other payables	(560)
Non-controlling interests	(33,653)
Total identifiable net assets at fair value	134,614
Satisfied by cash	11,432
Satisfied by shares	123,182
	134,614

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

	RMB'000
Total cash consideration	(11,432)
Less: cash and cash equivalents acquired	1
cash consideration payable (note 25)	11,432
Net cash inflow from the acquisition of a subsidiary	1

35. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Interest payables RMB'000	Bank and other borrowings RMB'000	Amount due to a shareholder RMB'000
At 1 January 2018	**5,564**	**398,903**	**2,898**
Changes from financing cash flows	**(34,614)**	**8,735**	**(1,348)**
Non-cash changes:			
Foreign exchange movement	**–**	**–**	**–**
Interest expense	**38,744**	**–**	**–**
At 31 December 2018	**9,694**	**407,638**	**1,550**
At 1 January 2017	4,105	202,682	–
Changes from financing cash flows	(16,463)	196,221	2,898
Non-cash changes:			
Foreign exchange movement	–	–	–
Interest expense	17,922	–	–
At 31 December 2017	5,564	398,903	2,898

36. CONTINGENT LIABILITIES

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

37. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 13 to the financial statements) under an operating lease arrangement with the term of 10 years. The term of the lease generally also requires the tenants to pay security deposits and provides for periodic rent adjustments with fixed rates.

At 31 December 2018, the Group had total future minimum lease receivables under a non-cancellable operating lease with its tenants falling due as follows:

	2018 RMB'000	2017 RMB'000
Within one year	7,886	7,543
In the second to fifth years, inclusive	33,978	41,511
Over five years	24,026	23,432
	65,890	72,486

(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 2018 and 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 RMB'000	2017 RMB'000
Within one year	3,912	6,713
In the second to fifth years, inclusive	756	4,913
	4,668	11,626

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:

	2018 RMB'000	2017 RMB'000
Contracted, but not provided for:		
— Plant and equipment	152,959	129,079

39. RELATED PARTY TRANSACTIONS

(a) As at 31 December 2018, the Group had obtained bank and other borrowings aggregated to RMB256,652,000 (2017: RMB302,325,000), which were guaranteed by Ms. Wu Jing and Mr. Leung Ka Kit with nil consideration.

(b) Outstanding balance with a shareholder

The Group had an outstanding balance due to Ms. Wu Jing of RMB1,550,000 (2017: RMB2,898,000) 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

	2018 **RMB'000**	2017 RMB'000
Basic salaries and other benefits	**4,210**	3,672
Equity-settled share option expense	**21,854**	142
Pension scheme contributions	**221**	153
Total compensation paid to key management personnel	**26,285**	3,967

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

40. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2018

Financial assets

	Financial assets at amortised cost RMB'000
Trade receivables	276,663
Financial assets included in prepayments, other receivables and other assets	11,837
Restricted deposits	2,524
Cash and cash equivalents	100,176
	391,200

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	82,648
Financial liabilities included in other payables and accruals	65,320
Interest-bearing bank and other loans	407,638
	555,606

40. FINANCIAL INSTRUMENTS BY CATEGORY — *continued*

2017

Financial assets

	Financial assets at amortised cost RMB'000
Trade receivables	433,109
Financial assets included in prepayments, other receivables and other assets	25,232
Restricted deposits	2,560
Pledged deposits	1,129
Cash and cash equivalents	29,356
	491,386

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	196,291
Financial liabilities included in other payables and accruals	58,687
Interest-bearing bank and other loans	398,903
	653,881

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 the sale of self-produced products given the continuing downturn 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 balances 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.

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

Credit risk — *continued*

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs	Life time ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables*	–	–	–	276,663	276,663
Financial assets included in prepayments, other receivables and other assets*					
— Normal**	10,956	–	–	–	10,956
— Doubtful**	–	–	881	–	881
Restricted deposits					
— Not yet past due	2,524	–	–	–	2,524
Cash and cash equivalents					
— Not yet past due	100,176	–	–	–	100,176
	113,656	–	881	276,663	391,200

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 20 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

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

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.

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 2018				
	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	5,987	8,149	241,674	197,811	453,621
Trade and bills payables	74,355	8,293	–	–	82,648
Other payables and accruals	50,492	12,175	2,653	–	65,320
	130,834	28,617	244,327	197,811	601,589

	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

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.

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:

	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	1,744,513	1,571,583
CURRENT ASSETS		
Prepayments, other receivables and other assets	–	245
Cash at banks	1	2
Total current assets	1	247
CURRENT LIABILITIES		
Other payables and accruals	5,755	6,672
Due to subsidiaries	70,070	70,041
Total current liabilities	75,825	76,713
NET CURRENT LIABILITIES	(75,824)	(76,466)
Net assets	1,668,689	1,495,117
EQUITY		
Issued capital	22,768	18,349
Reserves (note 32)	1,645,921	1,476,768
Total equity	1,668,689	1,495,117

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 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 and 1 January 2018		1,329,293	223,876	1,000	(77,401)	1,476,768
Issue of new shares		148,262	–	–	–	148,262
Equity-settled share option arrangements	31	–	–	36,219	–	36,219
Total comprehensive loss for the year		–	–	–	(15,328)	(15,328)
Transfer of share option reserve upon the expiry of share options		–	–	(1,000)	1,000	–
At 31 December 2018		1,477,555	223,876	36,219	(91,729)	1,645,921

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 March 2019, the Company entered into a subscription agreement with an independent private investor, Liu Kun (the "Subscriber"), pursuant to which the Subscriber has agreed to subscribe in cash, and the Company has agreed to issue, a bond with a principal amount of HK$32,000,000, bearing an interest rate of 5% per annum with a maturity date falling eighteen (18) months from the date of issue of the bond.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2019.

A summary of the results, assets and liabilities of the Group for the years ended 31 December 2014, 2015, 2016, 2017 and 2018 as extracted from the published audited financial statements, is set out below:

RESULTS

	Year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**536,792**	1,271,058	1,059,457	332,217	344,339
Cost of sales	**(501,511)**	(1,195,094)	(961,235)	(154,448)	(127,511)
Gross profit	**35,281**	75,964	98,222	177,769	216,828
Other income and gains	**9,192**	25,139	15,695	23,632	19,905
Selling and distribution expenses	**(5,376)**	(11,835)	(24,683)	(34,861)	(27,541)
Administrative expenses	**(90,192)**	(46,155)	(35,407)	(42,715)	(43,018)
Other expenses	**(6,966)**	(7,530)	(19,861)	(6,586)	(8,259)
Impairment losses	**(549,202)**	–	–	–	–
Finance cost	**(39,865)**	(18,963)	(24,317)	(16,606)	(13,698)
Share of losses of associates	**(1,014)**	(151)	–	–	–
PROFIT/(LOSS) BEFORE TAX	**(648,142)**	16,469	9,649	100,633	144,217
Income tax expense	**(997)**	(8,660)	(10,195)	(25,226)	(41,885)
PROFIT/(LOSS) AND TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**(649,139)**	7,809	(546)	75,407	102,332
ATTRIBUTABLE TO:					
Owners of the Company	**(395,786)**	8,450	(546)	75,407	102,332
Non-controlling interests	**(253,353)**	(641)	–	–	–
	(649,139)	7,809	(546)	75,407	102,332
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY:					
Basic and diluted (RMB cent per share)	**(17.2)**	0.4	0.00	6.00	8.00

	As at 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	**1,824,798**	2,171,240	1,701,978	296,763	164,640
Current assets	**476,012**	661,730	576,455	1,189,027	1,174,974
Non-current liabilities	**216,327**	259,096	26,032	29,805	39,386
Current liabilities	**456,420**	513,092	455,831	410,361	333,003
Total equity	**1,628,063**	2,060,782	1,796,570	1,045,624	967,225
Non-controlling interests	**97,727**	317,414	318,055	–	–
Equity attributable to owners of the Company	**1,530,336**	1,743,368	1,478,515	1,045,624	967,225