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LINGJIN
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# Lingbao Gold Group Company Ltd.
# 靈寶黃金集團股份有限公司

*(A joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock code: 3330)**

## ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

The board of directors (the "**Board**") of Lingbao Gold Group Company Ltd. (the "**Company**"), hereby presents the consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2017, which have been reviewed by the Company's Audit Committee.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the year ended 31 December 2017*

| | Note | **2017** | 2016 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| **Revenue** | 3 | **5,911,096** | 6,054,620 |
| Cost of sales | | **(5,125,119)** | (5,394,025) |
| Gross profit | | **785,977** | 660,595 |
| Other revenue | 4 | **40,677** | 27,676 |
| Other net loss | 5 | **(41,956)** | (127,216) |
| Selling and distribution expenses | | **(48,127)** | (37,746) |
| Administrative expenses and other operating expenses | | **(378,617)** | (370,831) |
| **Profit from operations** | | **357,954** | 152,478 |
| Finance costs | | **(246,648)** | (230,232) |
| **Profit/(loss) before taxation** | | **111,306** | (77,754) |
| Income tax | 6 | **(60,668)** | (14,618) |
| **Profit/(loss) for the year** | | **50,638** | (92,372) |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **79,834** | (77,456) |
| Non-controlling interests | | **(29,196)** | (14,916) |
| Profit/(loss) for the year | | **50,638** | (92,372) |
| **Basic and diluted earnings/(loss) per share (RMB cents)** | 8 | **10.4** | (10.1) |

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 December 2017*

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Profit/(loss) for the year** | **50,638** | (92,372) |
| **Other comprehensive income for the year (after tax and reclassification adjustments)** | | |
| **Item that may be reclassified subsequently to profit or loss:** | | |
| Exchange differences on translation of financial statements of overseas subsidiaries | **31,120** | (28,504) |
| **Total comprehensive income for the year** | **81,758** | (120,876) |
| **Attributable to:** | | |
| Equity shareholders of the Company | **104,787** | (100,304) |
| Non-controlling interests | **(23,029)** | (20,572) |
| **Total comprehensive income for the year** | **81,758** | (120,876) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Note | **2017** | 2016 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| **Non-current assets** | | | |
| Property, plant and equipment | | **2,111,998** | 2,299,516 |
| Construction in progress | | **526,191** | 309,125 |
| Intangible assets | | **730,398** | 711,358 |
| Goodwill | | **7,302** | 7,302 |
| Lease prepayments | | **209,660** | 163,366 |
| Interest in associates | | **21,531** | 8,600 |
| Other financial assets | | **10,504** | 40,504 |
| Non-current prepayments | | **185,980** | 168,988 |
| Deferred tax assets | | **187,299** | 185,406 |
| Other non-current assets | | **33,361** | 22,121 |
| | | **4,024,224** | 3,916,286 |
| **Current assets** | | | |
| Inventories | | **1,375,052** | 1,149,214 |
| Trade and other receivables, deposits and prepayments | 9 | **1,204,982** | 1,085,212 |
| Assets classified as held for sale | | **5,423** | 5,423 |
| Current tax recoverable | | **6,601** | 10,805 |
| Pledged deposits | | **874,958** | 158,274 |
| Cash and cash equivalents | | **455,427** | 1,164,569 |
| | | **3,922,443** | 3,573,497 |
| **Current liabilities** | | | |
| Bank and other borrowings | | **3,380,986** | 3,255,771 |
| Trade and other payables | 10 | **1,499,349** | 1,171,875 |
| Loan from shareholders | | **13,800** | 23,800 |
| Current tax payable | | **7,227** | 11,087 |
| | | **4,901,362** | 4,462,533 |
| **Net current liabilities** | | **(978,919)** | (889,036) |
| **Total assets less current liabilities** | | **3,045,305** | 3,027,250 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

| | Note | **2017** | 2016 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| **Non-current liabilities** | | | |
| Bank and other borrowings | | **1,512,425** | 1,817,738 |
| Other payables | 10 | **144,860** | 152,636 |
| Deferred tax liabilities | | **4,658** | 5,272 |
| | | **1,661,943** | 1,975,646 |
| **NET ASSETS** | | **1,383,362** | 1,051,604 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | | **154,050** | 154,050 |
| Reserves | | **1,069,881** | 965,094 |
| **Total equity attributable to equity shareholders of the Company** | | **1,223,931** | 1,119,144 |
| **Non-controlling interests** | | **159,431** | (67,540) |
| **TOTAL EQUITY** | | **1,383,362** | 1,051,604 |

# NOTES TO THE FINANCIAL STATEMENTS

## 1 BASIS OF PREPARATION

The financial information disclosed in this preliminary announcement of the Group's annual result was extracted from the Group's financial statements, which have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), and accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The Group's financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in the Group's financial statements.

As at 31 December 2017, the Group had net current liabilities of RMB979 million (which included cash and cash equivalents of RMB455 million), total borrowings of RMB4,893 million and capital commitments of RMB324 million. In view of these circumstances, the directors of the Company have given consideration to the future liquidity of the Group and its available sources of finance including banking facilities in assessing whether the Group will have sufficient financial resources to continue as a going concern. As at 31 December 2017, taking into account the Group's cash flow projection, including the Group's unutilised banking facilities of RMB2,127,680,000, ability to renew or refinance the banking facilities upon maturity and the Group's future capital expenditure in respect of its non-cancellable capital commitments, the directors of the Company consider that the Group has sufficient working capital to meet in full its financial obligations as they fall due for at least the next twelve months from the end of the reporting period and there are no material uncertainties related to events or conditions which, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern.

## 2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

## 3 REVENUE

The principal activities of the Group are mining, processing, smelting and sales of gold and other metallic products in the People's Republic of China ("**PRC**").

Revenue represents the sales value of goods sold to customers, net of sales tax and value added tax. The amount of each significant category of revenue is as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Sales of: | | |
| — Gold | **3,584,325** | 4,534,592 |
| — Other metals | **2,213,331** | 1,524,732 |
| — Others | **126,532** | 5,969 |
| *Less:* Sales taxes and levies | **(13,092)** | (10,673) |
| | **5,911,096** | 6,054,620 |

The Group has only one customer with whom transactions have exceeded 10% of the Group's revenues (2016: one). In 2017, revenues from sales of gold products to this customer amounted to approximately RMB3,537,906,000 (2016: RMB4,534,592,000) arose in the Henan Province, the PRC.

## 4 OTHER REVENUE

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Total interest income on financial assets not at fair value through profit or loss | **28,238** | 11,576 |
| Government grants | **7,544** | 8,022 |
| Scrap sales | **4,813** | 7,125 |
| Sundry income | **82** | 953 |
| | **40,677** | 27,676 |

## 5 OTHER NET LOSS

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Net realised and unrealised loss on financial instruments at fair value | **(22,243)** | (75,036) |
| Net loss on disposal of property, plant and equipment and intangible assets | **(2,866)** | (13,813) |
| Net foreign exchange loss | **(15,775)** | (5,129) |
| Impairment losses of: | | |
| — construction in progress *(note (a))* | **—** | (4,021) |
| — intangible assets *(note (b))* | **—** | (28,781) |
| Net gain on disposal of other investments | **—** | 773 |
| Others | **(1,072)** | (1,209) |
| | **(41,956)** | (127,216) |

(a) Impairment loss of RMB4,021,000 was recognised in respect of the construction project of Lingbao Gold Yili Metallurgical Company Limited ("**Yili**"), which is under the mining — PRC reportable segment, has been suspended during the year ended 31 December 2016. The Group's management performed annual impairment assessment as at 31 December 2017 and determined that no additional impairment provision is required.

(b) Impairment loss of RMB28,781,000 was recognised on certain exploration and evaluation assets of Habahe Huatai Gold Company Limited ("**Huatai**"), which is under the mining — PRC reportable segment, during the year ended 31 December 2016. The Group's management concluded that the possibility of extending the related exploration rights is low. The Group's management performed annual impairment assessment in respect of exploration and evaluation assets as at 31 December 2017 and determined that no additional impairment provision is required.

## 6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Current tax — PRC income tax** | | |
| Provision for the year | **62,817** | 36,508 |
| Under/(Over)-provision in respect of prior years | **358** | (428) |
| | **63,175** | 36,080 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **(2,507)** | (21,462) |
| | **60,668** | 14,618 |

## 7 DIVIDENDS

No dividend attributable to the year was declared in 2017 or proposed after the end of the reporting period (2016: Nil). No dividend attributable to previous year was approved or paid in 2017 (2016: Nil).

## 8 EARNINGS/(LOSS) PER SHARE

### (a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the earnings attributable to equity shareholders of the Company of RMB79,834,000 (2016: loss of RMB77,456,000) and 770,249,091 ordinary shares (2016: 770,249,091 shares) in issue during the year ended 31 December 2017.

### (b) Diluted earnings/(loss) per share

The diluted earnings/(loss) per share for the current and the prior year is the same as the basic earnings/(loss) per share as there are no dilutive ordinary shares during the years.

## 9 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade receivables | **384,692** | 472,641 |
| Bills receivable | **268,209** | 215,978 |
| Less: Allowance for doubtful debts | **(71,199)** | (73,833) |
| | **581,702** | 614,786 |
| Other receivables, deposits and prepayments | **155,796** | 119,885 |
| Less: Allowance for doubtful debts | **(9,530)** | (7,318) |
| | **146,266** | 112,567 |
| Purchase deposits *(note (d))* | **608,590** | 491,774 |
| *Less:* Allowance for non-delivery | **(131,576)** | (138,788) |
| | **477,014** | 352,986 |
| Financial assets at fair value through profit or loss | **—** | 4,873 |
| Amount due from Beijing Jiuyi *(note (e))* | **—** | — |
| | **1,204,982** | 1,085,212 |

All of the trade and other receivables, deposits and prepayments are expected to be recovered within one year.

## 9 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(continued)*

### (a) Ageing analysis

The ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within three months | **460,783** | 472,066 |
| Over three months but less than six months | **109,487** | 114,222 |
| Over six months but less than one year | **9,374** | 18,448 |
| Over one year | **2,058** | 10,050 |
| At 31 December | **581,702** | 614,786 |

For sales of gold, the Group requests customers to pay cash in full immediately upon the delivery. For sales of other metallic products, trade and bills receivables are due within 30 days to 180 days from the date of billing.

### (b) Trade and bills receivables that are not impaired

The ageing analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired are as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Neither past due nor impaired | **292,452** | 289,799 |
| Less than one year past due | **—** | 2,119 |
| Over one year past due | **—** | — |
| | **292,452** | 291,918 |

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers for whom there is no recent history of default. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

## 9 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(continued)*

### (c) Impairment of trade and other receivables

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivables directly.

The movement in the allowance for doubtful receivables during the year is as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| At 1 January | **81,151** | 54,105 |
| Impairment loss (reversed)/recognised | **(422)** | 35,472 |
| Impairment loss written off | **—** | (8,426) |
| At 31 December | **80,729** | 81,151 |

At 31 December 2017, the Group's trade and other receivables of RMB59,180,000 (2016: RMB64,135,000) were individually determined to be impaired.

### (d) Purchase deposits

Purchase deposits represent the amounts paid by the Group in advance to suppliers to secure timely and stable supply of mineral sand for the purposes of refining in future periods.

Impairment loss in respect of purchase deposits is recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against purchase deposits directly.

The movement in the allowance for non-delivery of purchase deposits during the year is as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| At 1 January | **138,788** | 100,406 |
| Impairment loss (reversed)/recognised | **(7,212)** | 38,382 |
| At 31 December | **131,576** | 138,788 |

At 31 December 2017, the Group assessed the recoverability of purchase deposits and concluded that purchase deposits of RMB131,576,000 (2016: RMB138,788,000) were individually determined to be impaired, and therefore full provision was made. The management considered that appropriate procedures have been taken by the Group to assess the capabilities of the suppliers to supply mineral sand and expect that the remaining purchase deposits would be gradually recovered through future purchases of mineral sand from the respective suppliers.

## 9 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(continued)*

### (e) Amounts due from Beijing Jiuyi

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Amounts due from Beijing Jiuyi | **30,800** | 30,800 |
| Less: Impairment losses | **(30,800)** | (30,800) |
| | **—** | — |

The balance due from Beijing Jiuyi was relating to a compensation payment for a proposed acquisition in previous years. The Group determined that the balance of RMB30,800,000 would not be recoverable and accordingly, an impairment loss was provided.

## 10 TRADE AND OTHER PAYABLES

Current trade and other payables:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Bills payable | **160,000** | 80,000 |
| Trade payables | **620,752** | 369,704 |
| Other payables and accruals | **448,855** | 491,189 |
| Interest payables | **35,203** | 26,311 |
| Payable for mining rights | **79,554** | 86,539 |
| Deferred income *(note (a))* | **80,390** | 73,020 |
| Payable to non-controlling interests *(note (b))* | **23,335** | 43,808 |
| Cash-settled written put option *(note (d))* | **50,000** | — |
| Dividend payable | **1,260** | 1,260 |
| Financial liabilities at fair value through profit or loss | **—** | 44 |
| | **1,499,349** | 1,171,875 |

| | **2017** | 2016 |
|---|---|---|
| Non-current other payables | | |
| Decommissioning costs *(note (c))* | **50,147** | 51,192 |
| Deferred income *(note (a))* | **94,713** | 101,444 |
| | **144,860** | 152,636 |

## 10 TRADE AND OTHER PAYABLES *(continued)*

(a) Deferred income represents grants received from the government for the exploration of mines, construction of mining related assets and machinery of copper products. When certain conditions are met, the government grants are recognised as income over the periods necessarily to match them with the related costs of assets constructed which they are intended to compensate over the periods and in the proportion in which depreciation on those assets is charged.

(b) Payable to non-controlling interests is unsecured, interest free and repayable on demand.

(c) The decommissioning costs relate to reclamation and closure costs relating to the Group's mine operations. The decommissioning costs are calculated as the net present value of estimated future net cash flows of the reclamation and closure costs, discounted at 4.9% which amounted to RMB50,147,000 (2016: RMB51,192,000) in total as at 31 December 2017.

(d) On 14 December 2017, an investment agreement was entered into between the Company, D&R Xinwei Advanced Manufacturing Fund (LP) ("D&R Fund") and Lingxin Gold Metallurgical in respect of increasing the registered capital of RMB50,000,000 in Lingxin Gold Metallurgical invested by D&R Fund. Pursuant to the investment agreement, the Group also granted a written put option to D&R Fund, giving it the right to sell its entire interest in Lingxin Gold Metallurgical at a consideration which comprises the capital injection of RMB50,000,000 and related interests with an annual interest rate of 9%.

At 31 December 2017, the present value of the redemption price of the cash-settled written put option of RMB50,000,000 was recorded as a current payable.

The ageing analysis of trade payables (which are included in trade and other payables) based on the invoice date, is as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within three months | **498,912** | 318,557 |
| Over three months but less than six months | **30,515** | 18,585 |
| Over six months but less than one year | **62,753** | 10,056 |
| Over one year but less than two years | **19,684** | 11,622 |
| Over two years | **8,888** | 10,884 |
| | **620,752** | 369,704 |

## 11 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

### a) Issuance of new domestic shares

On 4 January 2018, the Company entered into the subscription agreement ("SAI") with 9 subscribers respectively pursuant to which the Company has agreed to allot and issue an aggregate of 94,000,000 ordinary shares of the Company ("Subscription Shares I") to 9 subscribers at a price of RMB0.912 per share. The directors believed that the 9 subscribers are independent third parties. The Subscription Shares I, when issued and fully paid, will rank pari passu in all respects among themselves and with the existing domestic shares and H-Shares of the Company in issue on the date of subscription. The Subscription Shares I will be allotted and issued under the general mandate granted to the Directors and is conditional and subject to the conditions.

On 7 February 2018, all the conditions precedent under the SAI have been fulfilled, and an aggregate of 94,000,000 domestic shares of the Company have been issued to the 9 subscribers at the price of RMB0.912 (equivalent to approximately HK$1.096) per share pursuant to the terms and conditions of the SAI. None of the 9 subscribers has become a substantial shareholder of the Company immediately after the completion to SAI. The net proceeds from the subscription, after deducting relevant expenses, is approximately RMB85.2 million (equivalent to approximately HK$102.4 million). The net proceeds raised per share upon completion to SAI is approximately HK$1.089 per subscription share of the Company. The Company intends to use such net proceeds to repay the Company's existing short term bank loans.

### b) Issuance of new H shares

On 14 February 2018, the Company entered into a subscription agreement ("SAII") with a subscriber, pursuant to which the subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue an aggregate of 58,860,252 new H Shares ("Subscription Shares II") at the subscription price of HK$1.276 per subscription share to the subscriber. The directors believed that the subscriber and its ultimate beneficial owners are independent third parties and are not connected persons of the Company.

Completion of the subscription under each of the SAII is conditional upon fulfillment of the following conditions:

(i) The Board and the shareholders of the Company (if applicable) approving the issue of the Subscription Shares II;

(ii) The general mandate granted to the Directors remaining in effect and having not been revoked;

(iii) The Listing Committee of the Stock Exchange of Honey Kong Limited granting and not having withdrawn or revoked the approval for the listing of, and permission to deal in, the Subscription Shares II;

(iv) The Company to obtain approval from China Securities Regulatory Commission to issue the Subscription Shares II;

(v) The obtaining of other relevant approval and permission (if any) in relation to the issue of the Subscription Shares II; and

(vi) The representations and warranties by the parties to the SAII remaining true, accurate and complete in all aspects.

If the above conditions precedent cannot be fulfilled before 31 August 2018, the SAII will be automatically terminated and become null and void.

As at the date of this announcement, the above conditions have not been fully met.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Review of Business

In 2017, the Group produced approximately 12,702 kg (equivalent to approximately 408,378 ounce) gold, representing a decrease of approximately 4,330 kg (equivalent to approximately 139,213 ounce) or 25.4% as compared with the previous year. The Group's revenue decreased by 2.4% to approximately RMB5,911,096,000. The net profit attributable to the equity shareholders of the Company for the year was approximately RMB79,834,000, while the loss attributable to the equity shareholders of the Company for the previous year was RMB77,456,000. The Company's basic earnings per share was RMB0.10. The increase in net profit for the year was mainly due to: (i) the enhancement of the Group's management measures and operation efficiency by the management team; (ii) the increase in sales of copper products as compared with previous year, which has higher gross profit; (iii) the impairment on construction in progress and intangible assets decreased by RMB32,802,000 as compared with previous year; and (iv) the decrease in realised and unrealised losses on financial instruments measured at fair value by RMB52,793,000.

Given that raw materials accounted for over 79% of total production cost, the Group intends to increase its self-produced output of gold mine through expansion of mining operation scale, and uplift the overall production and operation targets, so as to minimise the risks associated with raw materials purchased from outsiders.

### *1. Mining Segment*

*Revenue and production*

Our mining business mainly comprises the sales of gold concentrates and compound gold. Most of the gold concentrates and compound gold were sold to the Group's smelting plant as inter-segment sales within the Group.

The following table sets forth the analysis of the production and sales volume of the mining segment by product category:

| | | **2017** | | 2016 | |
|---|---|---|---|---|---|
| | Unit | **Approximate production volume** | **Approximate sales volume** | Approximate production volume | Approximate sales volume |
| Gold concentrates (contained gold) | kg | **1,379** | **1,338** | 1,684 | 1,609 |
| Compound gold | kg | **1,185** | **1,229** | 1,273 | 1,156 |
| Total | kg | **2,564** | **2,567** | 2,957 | 2,765 |
| Total | ounce | **82,435** | **82,531** | 95,070 | 88,897 |

The total revenue of the mining segment of the Group for 2017 was approximately RMB709,820,000, representing a decrease of approximately 3.4% from approximately RMB734,733,000 in 2016. During the year, revenue of gold mines in Henan, Xinjiang, Inner Mongolia and Kyrgyzstan represented approximately 44.4%, 34.3%, 11.2% and 10.1% of the total revenue of the mining segment, respectively. The production volume of compound gold of the Group decreased by approximately 88 kg to approximately 1,185 kg while the production volume of its gold concentrates decreased by approximately 305 kg to approximately 1,379 kg.

The decrease in production volume of gold concentrates was mainly due to the renewal of production and safety permits by Tongbai Xingyuan Mining Company Limited, which has suspended production since October 2017 and is anticipated to recommence production in April 2018.

*Segment results*

The Group's results of the mining segment for 2017 were loss of approximately RMB53,073,000, as compared to the loss of approximately RMB3,668,000 in 2016. The segment results to segment revenue ratio of the Group's mining segment for 2017 was approximately (7.5)%, as compared to approximately (0.5)% in 2016.

As the first year after its trial production in 2016, Full Gold Mining Limited Liability Company ("Full Gold") met some problems in its production, and the recovery rate of the processing plant still could not meet the designed requirements. Therefore, the production volume of Full Gold is lower than expectation, which resulted in the increased production costs in 2017. In 2018, Full Gold will continue to improve its production process to enhance its recovery rate and production volume.

## 2. ***Smelting Segment***

Our smelting plant is situated in Henan Province, and is capable of processing gold, silver, copper and sulphur. Its products include gold bullion, silver, copper products and sulphuric acid. The following table sets forth the analysis of the production and sales volume of the smelting segment by product category:

| | | **2017** | | 2016 | |
|---|---|---|---|---|---|
| Products | Unit | **Approximate production volume** | **Approximate production volume** | Approximate production volume | Approximate production volume |
| Gold bullion | kg | **12,702** | **12,864** | 17,032 | 17,105 |
| | ounce | **408,378** | **413,587** | 547,591 | 549,938 |
| Silver | kg | **21,838** | **22,698** | 40,824 | 41,695 |
| | ounce | **702,108** | **729,758** | 1,312,522 | 1,340,525 |
| Copper products | tonne | **10,542** | **10,504** | 12,666 | 13,410 |
| Sulphuric acid | tonne | **103,492** | **107,112** | 172,204 | 175,080 |

*Sales and production*

The Group's total revenue from the smelting segment for 2017 was approximately RMB4,062,843,000, representing a decrease of approximately 20.2% from approximately RMB5,093,715,000 in 2016.

The daily processing capacity of gold concentrates of the Group was approximately 919 tonnes, at a production utilisation rate of approximately 100%. The Group's production volume of gold, silver, copper and sulphuric acid decreased by approximately 25.4%, 46.5%, 16.8% and 39.9%, respectively as compared with the previous year. During the year, the gold recovery rate was approximately 96.8%, the silver recovery rate was approximately 72.7% and the copper recovery rate was approximately 96.3%. The recovery rates of the Group remained at a relatively high level.

*Segment results*

The Group's results of the smelting segment for 2017 were a total profit of approximately RMB146,142,000, as compared to a total profit of approximately RMB189,612,000 in 2016. The segment results to segment revenue ratio of our smelting business in 2017 was approximately 3.6%, as compared to approximately 3.7% in 2016.

In 2017, the Group recorded a decline in the revenue and profit of its smelting segment, mainly because its smelting plant suspended production for about three months. The smelting branch received an "Emergency Notice in relation to Immediate Suspension of Production of Enterprises Involving Emission of Heavy-metal Pollutants" (《關於對轄區內涉及重金屬污染物排放企業立即進行停產整治的緊急通知》) issued by Lingbao Municipal Environmental Protection Commission's Office (靈寶市環境保護委員會辦公室) on 25 January 2017. Due to the excessive emission of heavy metals to Hongnongjian River, Yangping River and Zaoxiang River, there is a serious threat to the water quality of the downstream Sanmenxia Reservoir. To quickly remove pollution, improve the water quality of the above rivers and ensure the safety of water environment, seven enterprises' production (including the smelting branch) were suspended. The smelting branch was actively engaged in treatment work concerning safety and environmental protection, striving to resolve the issues and seeking early resumption of work and production. Having met the requirements on treating heavy-metal pollution from environmental protection authorities, the smelting plant has resumed its production since April 2017.

**Outlook**

In 2018, the Group's strategic direction is to promote the balanced development of its three major business, which is the business in mining, smelting and new energy industries. Copper processing segment and smelting segment are still the core of the Group's profits and must continue to make new contribution to the growth, while mining enterprises would aim for realising strong profitability in general. For Full Gold, stringent measures would be formulated to reduce losses in stipulated timeframe. The Group will continue to increase mine exploration and reserve for its existing gold mines. With continuous enhancement of environmental protection management standards, the Group aims to conserve the beautiful environment and assumes its social responsibilities.

## FINANCIAL INFORMATION

### 1. Operating Results

*Revenue*

The Group's sales analysis by products is shown as follows:

| | **2017** | | | 2016 | | |
|---|---|---|---|---|---|---|
| | **Amount** *(RMB'000)* | **Sales volume** *(kg/tonne/ m²)* | **Unit price** *(RMB per kg/tonne/m²)* | Amount *(RMB'000)* | Sales volume *(kg/tonne/m²)* | Unit price *(RMB per kg/tonne/m²)* |
| Gold bullion | **3,537,906** | **12,864 kg** | **275,024** | 4,534,592 | 17,105 kg | 265,103 |
| Silver | **74,275** | **22,466 kg** | **3,306** | 133,459 | 41,695 kg | 3,201 |
| Copper cathode | **396,493** | **9,312 tonnes** | **42,579** | 56,985 | 1,820 tonnes | 31,310 |
| Copper foils | **1,726,660** | **22,700 tonnes** | **76,064** | 1,168,659 | 19,493 tonnes | 59,953 |
| Flexible copper clad laminate | **15,903** | **133,625 m²** | **119** | 10,968 | 100,725m² | 85 |
| Sulphuric acid | **10,947** | **107,112 tonnes** | **102** | 5,969 | 175,080 tonnes | 34 |
| Gold concentrates | **162,004** | **1,152 kg** | **140,628** | 154,661 | 659 kg | 234,690 |
| Revenue before tax | **5,924,188** | | | 6,065,293 | | |
| Less: Sales tax | **(13,092)** | | | (10,673) | | |
| | **5,911,096** | | | 6,054,620 | | |

The Group's revenue for 2017 was approximately RMB5,911,096,000, representing a decrease of approximately 2.4% as compared with the previous year, of which the revenue of gold bullion accounted for 59.9% of its total revenue. Such decrease was mainly attributable to the decrease in sales volume of gold bullion by approximately 24.5% during the year. Although there was a large decrease in sale volume of gold bullion, the decrease in the Group's revenue narrowed because of the increase in sales volume and average selling price of copper foils by approximately 16.5% and 26.9% respectively as compared with the previous year.

The Group commenced its copper processing business during the year 2008, mainly involving the production of copper foil. In 2016, the Group continued to accelerate the transformation of lithium battery copper foil products and expanded into high-end market to improve its service quality and expand its product sales. Benefitted from the booming development of lithium battery industry and the new energy automobile industry, the demand for electrolytic copper foil has continuously climbed up. In 2017, the Group's copper foil segment recorded a significant growth in results, and the production and sales volume of copper foil were 22,636 tonnes and 22,700 tonnes, respectively, representing an increase of approximately 19.9% and 16.5%, respectively as compared with those of previous year.

*Gross profit and gross profit margin*

The Group's gross profit and gross profit margin for 2017 were RMB785,977,000 and 13.3%, respectively, the gross profit and gross profit margin for 2016 were RMB660,595,000 and 10.9%, respectively. In 2017, the increase in sales of copper products, which have higher gross profit margin, resulted in the increase in the Group's profit margin of 2.4% as compared with that of the previous year.

*Other revenue*

The Group's other revenue for 2017 was approximately RMB40,677,000, representing an increase of approximately 47.0% as compared with approximately RMB27,676,000 for 2016. Such increase was mainly attributable to the increase in interest income by RMB16,662,000.

*Other net loss*

The Group's other net loss for 2017 was approximately RMB41,956,000 as compared with other net loss of approximately RMB127,216,000 for 2016. Such decrease was mainly attributable to (i) a decrease in the impairment losses of construction in progress and intangible assets of approximately RMB32,802,000; and (ii) a decrease in the realised and unrealised losses on financial instruments at fair value of approximately RMB52,793,000.

*Selling and distribution expenses*

The Group's selling and distribution expenses for 2017 were approximately RMB48,127,000, representing an increase of approximately 27.5% as compared with the previous year. Such increase was mainly attributable to the increase of the copper foils business, and the corresponding increase in selling and distribution expenses.

*Administrative expenses and other operating expenses*

The Group's administrative expenses and other operating expenses for 2017 were approximately RMB378,617,000, representing an increase of approximately 2.1% as compared with approximately RMB370,831,000 for 2016.

*Finance costs*

The Group's finance costs for 2017 were approximately RMB246,648,000, representing an increase of approximately 7.1% as compared with approximately RMB230,232,000 for 2016. Such increase was mainly attributable to the increase in average bank loans interest rate during the reporting period.

*Profit attributable to the Company's equity shareholders*

The net profit attributable to equity shareholders of the Company for 2017 was approximately RMB79,834,000, as compared to the loss attributable to equity shareholders of the Company for 2016 of approximately RMB77,456,000. The basic earnings per share was RMB0.10. The Group does not recommend the payment of final dividend for the year ended 31 December 2017.

**2. Liquidity and Financial Resources**

The Group generally finances its acquisition and operations with internally generated funds and bank loans. The cash and bank balances as at 31 December 2017 amounted to RMB1,330,385,000 (31 December 2016: RMB1,322,843,000).

The total equity of the Group as at 31 December 2017 amounted to RMB1,383,362,000 (31 December 2016: RMB1,051,604,000). As at 31 December 2017, the Group had current assets of RMB3,922,443,000 (31 December 2016: RMB3,573,497,000) and current liabilities of RMB4,901,362,000 (31 December 2016: RMB4,462,533,000). The current ratio was 0.80 (31 December 2016: 0.80).

As at 31 December 2017, the Group had total outstanding bank and other borrowings of approximately RMB4,893,411,000 with interest rates ranging from 2.2% to 6.08% per annum, of which approximately RMB3,380,986,000 was repayable within one year, approximately RMB1,099,228,000 was repayable after one year but within two years, and approximately RMB413,197,000 was repayable after two years. The gearing ratio as at 31 December 2017 was 61.6% (31 December 2016: 67.7%), which was calculated by total borrowings divided by total assets.

As at 31 December 2017, the Group had unutilised bank facilities of RMB2,127,680,000 which could be drawn down by the Group to finance its operation when necessary.

### 3. Security

As at 31 December 2017, bank loans of the Group amounting to RMB64,035,000 were secured by the mining right of Istanbul Gold Mine with a carrying amount amounting to RMB66,523,000, the property, plant and equipment with carrying amount of RMB84,916,000 and equity interests in Full Gold, a subsidiary located in Kyrgyz Republic.

As at 31 December 2017, the machinery and equipment with carrying amount of RMB348,640,000 and equity interests in Lingbao Wason Copper-Foil Company Ltd. were pledged by the Group for a loan of RMB355,000,000 from a leasing company.

As at 31 December 2017, the Group secured the loans to a leasing company of RMB191,250,000 with a pledge of Nanshan Mine with carrying amount of RMB243,839,000 and pledged deposits with carrying amount of RMB10,000,000.

As at 31 December 2017, the Group secured bank loans of RMB969,763,000 with a pledge of secured deposits with carrying amount of RMB578,345,000 and bills receivable with carrying amount of RMB62,504,000.

### 4. Substantial Acquisition

During the reporting period, the Group had no substantial acquisition.

### 5. Market Risks

The Group is exposed to various types of market risks, including fluctuations in gold price and other commodity prices, as well as changes in interest rates and exchange rates.

*Gold price and other commodities price risk*

The Group's turnover and profit for the year were affected by fluctuations in the gold prices and other commodities price as all our products were sold at the market prices, where such fluctuation was beyond our control. The Group does not use and strictly prohibits the use of commodity derivative instruments or futures for speculation purpose. All commodity derivative instruments are used to minimise the potential price fluctuation of gold and other commodities.

*Interest rate*

The Group is exposed to risks associated with the fluctuation in interest rates on our debt obligations. The Group undertakes debt obligations for supporting capital expenditure and general working capital. The Group's bank loans bear interest rates that are subject to adjustment made by our lenders in accordance with changes of the relevant regulations of the People's Bank of China. If the People's Bank of

China increases the interest rates, our finance cost increases accordingly. In addition, to the extent that we may need to raise our debt financing in the future, upward fluctuations in interest rates will increase the cost of new debt.

*Exchange rate risk*

The Group's transactions are mainly denominated in Renminbi. As such, fluctuations in exchange rates may affect the international and domestic gold price, and our operation results may be affected. Renminbi is not freely convertible and the currency would fluctuate against a basket of currencies. The PRC government may take further actions and implement new measures on free trade of Renminbi.

In addition to the foregoing, the exchange rate risks to which the Group exposes are mainly from certain bank deposits, trade and other receivables, trade and other payables and bank loans, which are denominated in foreign currencies. The currency giving rise to risk is primarily United States dollars.

Fluctuations in exchange rates may adversely affect the value of our net assets, earnings and any dividends we declare when they are being converted or translated into Hong Kong dollars.

## 6. Contractual Obligations

As at 31 December 2017, the Group's total capital commitments in respect of the construction costs which were not provided for in the financial statements were approximately RMB83,767,000, representing an increase of approximately RMB40,484,000 from approximately RMB43,283,000 as at 31 December 2016.

As at 31 December 2017, the Group's total future minimum lease payments under non-cancellable operating leases amounted to approximately RMB15,128,000, of which approximately RMB4,241,000 was payable within one year, approximately RMB8,539,000 was payable after one year but within five years, and approximately RMB2,348,000 was payable after five years.

## 7. Contingent Liabilities

As at 31 December 2017, the Group had no material contingent liabilities.

## 8. Capital Expenditure

In 2017, the Group's capital expenditure was approximately RMB335,831,000, representing a decrease of approximately 18.3% from approximately RMB411,229,000 in 2016.

The Group's capital expenditure mainly relates to the construction of mining shafts, expansion of project equipment and upgrading of production equipment.

9. **Employees**

In 2017, the average number of employees of the Group was 6,058. The Company highly treasures its human resources and provides its employees with competitive remuneration and training programs.

## CORPORATE GOVERNANCE

After our listing of H Shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 January 2006, the Company has complied with all Code Provisions under the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules, save for the deviation from Code Provision A.2.7 (the chairman should at least annually hold one meeting with the non-executive directors (including independent non-executive directors) without the executive directors present).

Code Provision A.2.7 provides that the chairman should at least annually hold one meeting with the non-executive directors (including independent non-executive directors) without the executive directors present. During the year 2017, all meetings were held with the executive directors' presence. However, the chairman has delegated the secretary to the Board to gather any concerns and/or questions that the non-executive directors and the independent non-executive directors might have and report to him and arrange a meeting with them.

## AUDIT COMMITTEE

The audit committee comprises one non-executive director and four independent non-executive directors, namely Yang Dongsheng (Chairman), Shi Yuchen, Han Qinchun, Wang Jiheng and Wang Guanghua.

The audit committee has reviewed the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters regarding the preliminary final results for the year ended 31 December 2017 together with the management of the Group. The audit committee has also reviewed the annual results with the Company's external auditor. The audit committee is of the opinion that the financial statements for the year have complied with accounting standards and appropriate disclosures have been made.

## PURCHASE, SALES OR REDEMPTION OF SHARES OF THE COMPANY

For the year ended 31 December 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

## DIVIDENDS

At the board meeting held on 29 March 2018, the directors do not recommend the payment of final dividend for the year ended 31 December 2017 (2016: RMB nil).

## CLOSURE OF REGISTER

The register of members of the Company will be closed from Tuesday, 8 May 2018 to Wednesday, 6 June 2018, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible for the shareholders to attend the forthcoming annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's H shares registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H shares) or the registered office address of the Company at Hangu Road and Jingshan Road Intersection, Lingbao, Henan, the PRC (for holders of domestic shares), no later than 4:30 p.m. on Monday, 7 May 2018.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as the Company's code of conduct for dealings in securities by directors and supervisors. Having made specific enquiry of all the Company's directors, all directors and supervisors of the Company have confirmed that they had fully complied with the required standard set out in the Model Code throughout the year ended 31 December 2017.

## PUBLICATION OF RESULT ANNOUNCEMENT AND ANNUAL REPORT

This result announcement has been published on the website of Hong Kong Exchanges and Clearing Limited ("HK Exchange"), www.hkexnews.hk, and the website of the Company, www.irasia.com/listco/hk/lingbao. The 2017 Annual Report will be despatched to shareholders in due course and published on the websites of HK Exchange and the Company.

By order of the Board
**Lingbao Gold Group Company Ltd.**
**Chen Jianzheng**
*Chairman*

Hong Kong, 29 March 2018

*As at the date of this announcement, the Board comprises five executive directors, namely Mr. Chen Jianzheng, Mr. Wang Leo, Ms. Zhou Xing, Mr. Zhao Kun and Mr. Xing Jiangze; one non-executive director, namely Mr. Shi Yuchen; and four independent non-executive directors, namely Mr. Yang Dongsheng, Mr. Han Qinchun, Mr. Wang Jiheng and Mr. Wang Guanghua.*