



Hengxing Gold Holding Company Limited

(A limited company incorporated in Cayman Islands)

Comprehensive Risk Management Measures Of

Hengxing Gold Holding Company Limited

Amended and adopted by the Board of Directors on January 3, 2020

Chapter I General Provisions

Article I To enable Hengxing Gold Holding Company Limited (hereinafter referred to as "**Hengxing Gold**" or "**the Company**") and its holding subsidiaries (hereinafter referred to as "**subsidiaries**", and together with the Company hereinafter referred to as "**the Group**") to develop continuously, stably and healthily, and to have a comprehensive and timely grasp of the risk situation faced by the Group, to improve the predictability and response capability to risks, to enhance core competitiveness, and to promote the realization of strategic and operational objectives, this Measures is hereby formulated in accordance with the Basic Standard for Enterprise Internal Control, the Articles of Association of the Company, the Listing Rules of the Stock Exchange of Hong Kong Limited and other provisions, and in combination with the actual situation of the Company.

Article II The term "comprehensive risk management" as mentioned in this Measures means processes and methods in which the board of directors, management, all employees and expatriates of the Company participate jointly in the risk management, and in order to eliminate the influence of various uncertainties on the realization of the Company's strategic and operational objectives, establish and improve the risk management system, implement the risk management process in each management link, cultivate a good risk management culture, and provide guarantee for the realization of the overall objective of risk management.

Article III The overall objective of the Company's risk management is to avoid and reduce possible losses caused by risks and ensure the sustainable and healthy development of the Company.

Article IV Comprehensive risk management shall follow the following principles:

- (I) Comprehensiveness
- (II) Effectiveness
- (III) Prevention and control
- (IV) Cost-effectiveness

Chapter II Classification of Risks and Risk Management Strategy

Section I Classification of Risks

Article V According to the classification of industry risks by regulatory authorities, the risk characteristics of the industry and the Company's own situation, the risks faced by the Company shall be classified as seven categories: management risk, reputation risk, moral risk, credit risk, operational risk, compliance risk and market risk.

Article VI Industry risks and characteristics

The following are some of the major risks and characteristics that have a significant adverse impact on the Group:

- (1) As a mining company, Group cannot guarantee that it will record revenue or positive cash flow and develop the business as planned.
- (2) The Group's business is currently focused on gold ore mining, thus facing many uncertainties related to the gold ore (e.g. The gold ores actually produced are different from the estimation in grade, tonnage, metallurgy and other characteristics; encounter unusual or unexpected geological conditions; mining dilution; the actual gold recovery rate after the mine is officially put into production is lower than the estimative figure in the test process; industrial accidents; equipment failure; severe weather conditions, floods, snowstorms, droughts, mudslides, earthquakes and other natural phenomena; cost changes of public facilities, etc.) and failure to reach the estimated output may have a significant adverse impact on business, financial condition and operating results;
- (3) Mining enterprises have relatively high safety and environmental protection risks. The Group shall strengthen the implementation of the responsibility for safe production, continuously improve the safe and standardized operation system, and comprehensively use system, management, economy and other means to ensure the continuous and stable safe production of its subsidiaries; implement environmental protection and ecological restoration, vigorously develop green mine construction, and strive to promote the formation of a green development pattern.
- (4) The fluctuation of the gold market price and the exchange rate of RMB against USD may have a significant adverse impact on the Group's business, financial condition and operating results.

Article VII Classification of risks

- (I) Management risk

It refers to the risk arising from improper handling of the whole company in various fields, including meeting regulatory requirements, formulating and implementing business strategies, designing organizational structures, and managing human resources.

(II) Reputation risk

It refers to the risk caused by corporate behaviors that directly affect the trust of all sectors of society in the company.

(III) Moral risk

It means that the internal staff do harm to the company and others while maximizing their own effectiveness. Low quality of personnel and relaxed ideological education are the root causes of moral risk. Ineffective internal control and lax management are the direct causes of moral hazard.

(IV) Credit risk

It refers to the risk that the company will suffer losses due to the inability or unwillingness of the financier to repay or invest the funds on schedule. At the same time, the instability of the institutions (such as banks, custodians, etc.) hosting cash or assets for the company will also cause credit risk.

(V) Operational risk

It refers to the risk that the company may suffer losses due to imperfect or problematic internal program personnel and system or external events, including internal fraud, external fraud, safety problems in employee activities and workplaces, safety problems in customers, products and business activities, damage to physical assets maintained by the company, business interruption and system errors, accounting, administration, delivery and process management, etc..

(VI) Compliance risk

It refers to the risk that the company, all departments or employees may suffer legal sanctions, regulatory penalties, financial losses or reputation losses due to non-compliance behaviors.

(VII) Market risk

It refers to the risk that the company may suffer losses caused by fluctuations in market interest rates, exchange rates or product prices, which will further affect the company's reputation and may endanger the company's survival and development.

Article VIII Compliance risk and reputation risk are the main risks faced by the Company. Environmental pollution caused by poor management and improper operation is a very important risk and will also cause the Company to bear major compliance and reputation risks. Moreover, moral risk, management risk, operational risk, credit risk, market risk, etc. are the main risks that the Company undertakes in its business operation. All departments and employees shall strictly follow the Company's classification and definition of risks and take different measures for different types of risks to effectively avoid and prevent losses caused by risks.

Section II Risk Management Strategy

Article IX Risk management strategy means the overall strategy and overall guidelines of risk management of the Company to determine the risk preference, risk tolerance, risk management effectiveness standards, select appropriate risk management tools, and determine the allocation principles of human and financial resources required for risk management, etc. in accordance with the internal and external environment and the company development strategy formulated by the board of directors, and in combination with the Basic Standard for Enterprise Internal Control jointly promulgated by the Ministry of Finance and other departments.

Article X The risk management strategy shall specify which risks the Company cannot bear and how to make corresponding adjustments according to changes in internal and external situations.

Article XI The risk management strategy shall be formulated by the audit committee (which also has the risk management function) and determined after evaluation by the board of directors. The management level shall be responsible for implementing the Company's risk management strategy into the Company's system and process management, improving various business systems and processes, and inspecting and evaluating the implementation and effect of the risk management strategy.

Article XII The existing risk management strategies, systems and processes shall be revised and adjusted in time if their feasibility or effectiveness are seriously affected by changes in the internal and external environment.

Article XIII In the process of implementing the risk management strategy, the Company shall establish and continuously improve the authorization system, and all departments and branches of the Company must carry out the work within the scope of authority of the Company. And the Company shall establish an effective information communication mechanism to enable risk information to be transmitted to relevant departments and company leaders in a timely manner.

Chapter III Risk Management Organization System and Division of Responsibilities

Article XIV The Company shall adopt level-to-level management for overall risk management. The overall risk management organization system includes the board of directors, the audit committee, the internal audit department, the management level, other functional departments and branches. In addition, the Company can further conduct supervision and improve the management through external consultants.

Article XV The Company shall establish a risk management system by constructing a complete risk management framework, and all departments and personnel shall assume responsibility for risk management. The risk management framework is stated as follows:

- (1) The board of directors is the highest decision-making body of the Company's risk management and shall be responsible for managing and monitoring the risks of the Company as a whole.
- (2) The audit committee shall be responsible for guiding the Company's risk prevention work and examining and approving the Company's risk control system; evaluating the Company's risk condition, risk management capability and level, and supervising the work progress and effect of the Company's risk prevention and monitoring system.
- (3) The management level shall be responsible for leading the daily operation of the Company's risk management and internal control, establishing and improving the risk prevention and internal control system of the Company's business and management processes, and effectively resolving and reducing the overall operational risks of the Company.
- (4) The internal audit department shall conduct independent audits and inspections on the operation process and the results of various departments.
- (5) Each department shall carry out routine maintenance and management of its business process and operation process, identify major risk points faced by the department, conduct self-inspection and implement key control procedures for such points.

Article XVI As the highest decision-making body of the risk management framework, the board of directors shall be responsible for managing and monitoring the overall risks of the Company, making decisions on major risk matters and ensuring the realization of the corporate strategy. The main responsibilities of the board of directors for comprehensive risk management include:

- (1) Examine and approve the risk management matters submitted by the audit committee.
- (2) Decide on other major issues related to comprehensive risk management.

Article XVII The audit committee shall be responsible for supervising the work progress and effect of the board of directors and the management level in establishing and improving the Company's risk prevention and monitoring system, and investigating and dealing with the acts of directors and senior executives that cause heavy losses to the Company due to violation of the risk management system and risk management responsibilities. The chairman of the audit committee is the representative and the first responsible person of the audit committee responsible for the supervision of the aforesaid risk work.

Article XVIII The audit committee shall be responsible for providing guidance on risk prevention in the process of operation and management of the Company, and examining and approving the Company's risk control system; evaluating the Company's risk condition, risk management capability and level, putting forward suggestions to improve the Company's risk management and internal control, and performing other duties prescribed by the board of directors. The main responsibilities of the audit committee for comprehensive risk management include:

- (1) Review the risk management matters submitted by the management level and

submit them to the board of directors for approval.

- (2) Examine whether the operation and management of the Company's general manager conforms to the decision of the board of directors and submit it to the board of directors for approval.
- (3) Promote the implementation of other risk management matters decided by the board of directors.

Article XIX The management level shall be responsible for leading the daily operation of the Company's risk management and internal control and shall ensure the effectiveness of the risk management system to the board of directors. The president is the first person in charge of risk management at the management level. The main responsibilities of the management level for comprehensive risk management include:

- (1) Review the risk management matters submitted by the internal audit department and submit them to the audit committee for approval.
- (2) Establish and improve the risk prevention and internal control system of the Company's business and management processes, manage the daily risks of all functional departments and business units of the Company and effectively resolve and reduce the overall operational risks of the Company.
- (3) Review other important matters of risk management.

Article XX The internal audit department is an independent risk management supervision department of the Company. Through the internal audit, it proposes effective measures to improve risk management, helps the Company maintain an effective risk control system, and submits the risk management supervision to the Audit Committee for review. The main responsibilities of the department for comprehensive risk management include:

- (1) Take the lead in the audit and be responsible for summarizing and analyzing the assessment results when the board of directors decides that it is necessary to carry out a risk assessment or special audit for the Group or its subsidiaries.
- (2) According to the results of risk assessment, put forward suggestions for adjustment of risk management strategies, and organize relevant departments to formulate major risk response plans.
- (3) Organize and promote the construction and improvement of the comprehensive risk management system, and assist other departments and branches to carry out the construction of the risk management system.
- (4) Provide professional support for each functional department of the Company to manage major risks, organize and coordinate cross-department risk management issues, and put forward professional opinions on major risk management of the Company.
- (5) Supervise and inspect the formulation, implementation and effect of major risk response plans.
- (6) Be responsible for drafting or revising relevant risk management systems and supervising their implementation, guiding and assisting in the formulation and improvement of specific risk management measures and operational procedures.

- (7) Identify the internal control defects found in the supervision and inspection process, including design defects and operational defects.
- (8) Propose to hire and replace project audit, external audit institutions and evaluation institutions, and supervise and evaluate the above institutions.
- (9) Complete other risk management related work assigned by company leaders.

Chapter IV Comprehensive Risk Management Workflow

Section I Risk Assessment

Article XXI Risk assessment refers to the identification, analysis and evaluation of risks faced by the Company based on information collection and according to changes in the internal and external environment of the Company, including prior risk assessment of various management systems, various business development plans, business and investment plans of the Company.

Article XXII In the process of carrying out a risk assessment, the Company shall accurately identify the internal and external risks related to the realization of the control objectives and determine the corresponding risk tolerance.

Section II Risk Control

Article XXIII The department directly responsible for risk control shall, in combination with the results of risk assessment, take corresponding control measures to control risks within the tolerance scope.

Article XXIV Control measures generally include: separation control of incompatible duties, authorization approval control, accounting system control, property protection control, budget control, operation analysis control and performance appraisal control, etc..

Article XXV The separation control of incompatible duties requires the Company to comprehensively and systematically analyze and sort out the incompatible duties involved in the business process, implement corresponding separation measures, and form a working mechanism that performs its own duties, assumes its own responsibilities and restricts each other.

Article XXVI The authorization approval control requires the Company to specify the scope of authority, approval procedures and corresponding responsibilities of each post in handling business and matters according to the provisions of general authorization and temporary authorization in the collection management system.

Article XXVII Accounting system control requires the Company to strictly implement the national unified accounting standard system, strengthen the basic accounting work, clarify the processing procedures of accounting vouchers, accounting books and financial accounting reports, and ensure the authenticity and integrity of accounting data.

Article XXVIII The Company shall set up an accounting organization and provide accounting practitioners in accordance with the law. Personnel engaged in accounting work must obtain an accounting qualification certificate. The person in charge of an accounting organization shall have the professional and technical qualifications of an accountant or above.

Article XXIX Property protection control requires the Company to establish a daily property management system and a regular checking system, and take measures such as property recording, physical storage, regular checking, and reconciliation of accounts to ensure property safety.

Article XXX The Company shall strictly restrict unauthorized personnel from contacting and disposing of property.

Article XXXI Budget control requires the Company to implement a comprehensive budget management system, define the responsibilities and authorities of each responsible unit in budget management, standardize the budget preparation, approval, issuance and implementation procedures, and strengthen budget constraint and monitoring.

Article XXXII The operation analysis control requires the Company to establish an operation analysis system. The management level shall make comprehensive use of information on the main business, investment, fundraising, finance and other aspects, and regularly carry out operation analysis through factor analysis, comparative analysis, trend analysis and other methods to find out the existing problems, find out the reasons in time and improve them.

Article XXXIII Performance appraisal control requires the Company to establish and implement a performance appraisal system, scientifically set up a target evaluation index system, conduct regular assessment and objective evaluation on the performance of each responsible unit and all employees within the Company, and use the appraisal results as the basis for determining the salary of employees and the promotion, assessment, demotion, post transfer and dismissal of employees, etc.. The Company shall establish an incentive and restraint mechanism for risk control, incorporate the implementation of internal control by each responsible unit and all employees into the performance appraisal system, and promote the effective implementation of internal control.

Article XXXIV Investment and asset disposal project control requires the Company to establish and implement project management measures for investment and asset disposal, define management processes such as project initiation, due diligence and risk assessment, decision-making, project team management, negotiation and contract management, performance management, dispute disposal and post-project evaluation, control risks of investment and asset disposal, and avoid wrong decision-making, unnecessary losses or additional costs.

Article XXXV The Company shall, in accordance with its internal control objectives and in combination with risk response strategies, comprehensively apply control measures to effectively control various businesses and events.

Section IV Response to Sudden Major Risk Events

Article XXXVI The Company shall establish a sensitive and efficient crisis management and emergency management mechanism to reduce risks and losses. For emerging major risks that lack of risk contingency plans, the management level, and relevant departments shall immediately coordinate and organize personnel to study and formulate risk response plans, and report such plans to the Company's audit committee for approval before implementation.

Article XXXVII From the point of view of facilitating report management and disposal management, the Company's sudden risks and crises shall be classified into general internal risks (refer to the risks that the expected economic loss does not exceed 500,000 yuan or the disputed amount involved in a lawsuit does not exceeds 2 million yuan, or the reputation is slightly affected by external factors); moderate risks (refer to the controllable risks that the expected economic loss is more than 500,000 yuan but less than 5 million yuan, or the disputed amount involved in a lawsuit is more than 2 million yuan but less than 10 million yuan, or the reputation is greatly affected by external factors); major risks (refer to events with expected economic loss exceeds 5 million yuan or the disputed amount involved in a lawsuit exceeds 10 million yuan, or events that cause strong pressure and external negative impact on the Company's reputation, business activities, internal management and asset safety, or crisis events that affect the company survival).

Article XXXVIII When the risk has occurred, anyone who first comes into contact with or perceives the risk must report it to the manager at the next higher level and submit it to the internal audit department. The manager at the next higher level who receives the report information shall promptly organize relevant departments and relevant personnel to make a preliminary evaluation of the risk and determine whether it is a general internal risk, a moderate risk or a major risk. For general risks, the manager at the next higher level who receives the report information shall immediately report to the president in writing; for moderate risks, such manager shall immediately report to the president and the chairman of the board of directors, and instruct the responsible person of the relevant institution or relevant personnel to organize the handling of such risk; for major risks, such manager shall immediately report to the president, the chairman of the board of directors and the chairman of the audit committee, and submit it to the board of directors, and after the discussion with a resolution made by the board of directors, the president shall instruct the responsible person of the relevant institution or relevant personnel to organize the handling of such risk, and supervise the implementation. For risks with unidentifiable risk level, the person who receives the report information shall immediately report to the president and the chairman of the audit committee, so that the latter can distinguish the risk level and organize the disposal.

Article XXXIX For known major risks or corporate crises, the chairman of the board, the chairman and member of the audit committee and the president shall start the crisis handling procedures as soon as possible. After the crisis event is handled,

the crisis handling team shall submit a summary report in a timely manner, truthfully reflecting the cause, occurrence process, handling methods and results, responsibility identification, problems reflected, etc. of the event, and put forward rectification suggestions or opinions to avoid new risks and crises.

Chapter V Supervision of Risk Management

Article XL The Company shall establish a risk supervision mechanism. The supervision of risk management refers to the continuous supervision of the effect and efficiency of risk management, including regular inspection of the implementation of risk management by various departments and branches of the Company, and improvement and promotion of the Company's risk management according to the supervision results.

Article XLI The internal audit department may decide to carry out special risk inspection and, if necessary, conduct key internal control audits or organize special internal control audits. For other matters that are inconvenient to check or cannot be checked, the internal audit department shall have the right to put forward risk management suggestions to relevant departments of the Company and confirm the deadline for rectification.

Article XLII The internal audit department shall be responsible for the internal supervision and evaluation of risks. Internal supervision and evaluation are divided into daily supervision and evaluation and special supervision and evaluation.

Article XLIII Daily supervision and evaluation refers to the routine and continuous supervision and inspection conducted by the internal audit department on the establishment and implementation of internal control, and the inspection and evaluation of the overall state of risk management and the efficiency and effect of internal control of the Company.

Article XLIV Special supervision and evaluation refers to the targeted supervision and inspection conducted by the internal audit department on one or some aspects of internal control in the event of major adjustments or changes in enterprise development strategy, organizational structure, business activities, business processes, employees holding key positions, etc.. The scope and frequency of special supervision shall be determined according to the results of risk assessment and the effectiveness of daily supervision.

Article XLV For the internal control defects found in the supervision process, the nature and causes of the defects shall be analyzed, the rectification plan shall be put forward, and the report shall be submitted to the audit committee in a timely manner.

Article XLVI The internal audit department shall follow up the rectification of internal control defects. If the rectification is not in place, it shall have the right to request the Company to investigate the responsibilities of relevant departments and offices or responsible persons.

Chapter VII Accountability

Article XLVII For the violation of the Company's risk management system by employees, the internal audit department may put forward treatment suggestions and report to the president for approval, after which the human resources department shall hold the specific responsible person accountable and punish such person. The audit committee shall have the right to put forward treatment suggestions to the chairman of the board of directors for the management level and department heads who violate the risk management system. The audit committee shall have the right to put forward treatment suggestions to the shareholders' meeting for the directors and management level who violate the company's risk management system.

Article XLVIII For the responsible person and the unit leaders who cause the Company to be exposed to general risks and moderate risks due to decision-making mistakes, dereliction of duty in management, misconduct, violation of laws and regulations, etc., the salary reduction, demotion, removal from office, disenrollment & dismissal and other treatments shall be taken depending on the seriousness of the case, the loss severity and the attitude of the responsible person, and the Company shall have the right to require such person to make compensation for the loss. For the responsible person and the unit leaders who cause the Company to be exposed to major risks or crisis and results in tangible or intangible loss due to decision-making mistakes, dereliction of duty in management, misconduct, violation of laws and regulations, etc., such person shall be investigated for their direct responsibility or leadership responsibility (including criminal responsibility, administrative responsibility and civil responsibility) and the Company shall have the right to require such person to make compensation for the loss; the Company shall have the right to remove them from office and terminate labor relations.

Article XLIX For the person who causes the Company's business to be exposed to risks due to decision-making mistakes, dereliction of duty in management, violation of laws and regulations, etc., the scope of accountability and the procedures for accountability shall be implemented in accordance with the Company's business accountability measures.

Chapter VIII Supplementary Provisions

Article L All wholly-owned or holding subsidiaries of the Company at home and abroad shall establish risk management culture and policies which are consistent with the parent company, establish a sound risk management system and internal control mechanism, establish a major event reporting system and review mechanism, and truly, accurately, completely, timely and fully report major business matters, major financial matters and other major risk matters to the

parent company. Relevant departments of the Company shall regularly or irregularly inspect and evaluate the effectiveness of the risk management system of all wholly-owned or holding subsidiaries. The Company's detailed management rules for various specific risks of subsidiaries can be separately formulated with reference to the requirements of this system.

Article LI The audit committee authorized by the board of directors shall be responsible for the interpretation of this Measures.

Article LII This Measures shall come into effect as of the date of promulgation after being approved and adopted by the board of directors, and the same shall apply to the case of revision.

Article LIII When necessary, appropriate updates and amendments shall be made for this Measures according to the changes in Hong Kong's regulatory requirements (such as listing rules).

Hengxing Gold Holding Company Limited

This Measures was deliberated and adopted in the first meeting of the board of directors
of the Company in March 2016.

Amended and adopted by the Board of Directors on January 3, 2020

January 3, 2020