中國罕王控股有限公司

CHINA HANKING HOLDINGS LIMITED

罕王
HANKING

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 03788

Annual Report 2012

MISSION

Going beyond oneself and contributing to the community

PHILOSOPHY

Safe Mine, Harmonious Mine, Green Mine

CONTENTS

CORPORATE INFORMATION

China Hanking Holdings Limited (the "Company") was incorporated in Cayman Islands as an exempted company with limited liability under the laws of Cayman Islands on 2 August 2010. The Company was listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") on 30 September 2011. As at 31 December 2012, the Company has issued 1,830,000,000 ordinary shares in total.

The primary business operations of the Company and its subsidiaries (the "Group") in China include iron ore exploration, mining, processing and selling and the product is iron ore concentrates. As at 31 December 2012, the Group's iron ore resources were 220 million tons. The Group's five iron ore enterprises are located at the famous iron ore metallogenic belt of Liaoning Anshan-Benxi. At the beginning of 2013, the Company has completed the acquisition of large laterite nickel mine located in North Konawe Regency, South East Sulawesi Indonesia and 100% equity interests in SXO's gold assets located in the centre of Yilgarn goldfield in western Australia. Nickel resources owned by Indonesia laterite nickel project amounted to 4,800,000 tons, and the gold resources of SXO project was 75 tons. By acquisition, it has initially realized the Company's established strategy, which is to promote the diversity and internationalization of the Company's minerals. The Group is capable of developing the resources in China and even other regions in the world, by virtue of the Group's international team, low production and operation cost, strategic geographic location, proactive expansion plan for production as well as the various minerals strategy, while at the same time, enhancing the Company's competitiveness and bringing constant returns to the shareholders of the Company.

CORPORATE INFORMATION *(CONTINUED)*

Directors

Executive Directors
Mr. Pan Guocheng *(Chief Executive Officer)*
Mr. Zheng Xuezhi
Mr. Xia Zhuo
Mr. Qiu Yumin

Non-executive Directors
Ms. Yang Min *(Chairlady)*
Mr. Yang Jiye
Mr. Lan Fusheng
Mr. Kenneth Jue Lee

Independent Non-executive Directors
Mr. Wang Ping
Mr. Johnson Chi-King Fu
Mr. Chen Yuchuan
Mr. Wang Anjian

Audit Committee

Mr. Wang Ping *(Chairman)*
Mr. Johnson Chi-King Fu
Mr. Wang Anjian

Nomination Committee

Ms. Yang Min *(Chairlady)*
Mr. Chen Yuchuan
Mr. Johnson Chi-King Fu

Remuneration Committee

Mr. Wang Ping *(Chairman)*
Mr. Yang Jiye
Mr. Chen Yuchuan

Health, Safety, Environmental Protection and Community Committee

Mr. Pan Guocheng *(Chairman)*
Mr. Lan Fusheng
Mr. Wang Anjian

Company's Statutory Chinese Name

中國罕王控股有限公司

Company's Statutory English Name

China Hanking Holdings Limited

Stock Code

03788

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Headquarters in the PRC

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Shenhe District
Shenyang 110015
Liaoning Province
PRC

Principal Place of Business in Hong Kong

8th Floor, Gloucester Tower
The Landmark, 15 Queen's Road Central
Hong Kong

Authorized Representatives

Mr. Wang Ping
Ms. Mok Ming Wai

Joint Company Secretaries

Mr. Xia Zhuo
Ms. Mok Ming Wai

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F, One Pacific Place
88 Queensway
Hong Kong

Hong Kong Legal Advisor

Clifford Chance
28th Floor
Jardine House
One Connaught Place
Central
Hong Kong

Compliance Adviser

Haitong International Capital Limited
25/F, New World Tower
16-18 Queen's Road Central
Hong Kong

Principal Share Registrar in the Cayman Islands

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Hong Kong Share Registrar

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

Investor Enquiries

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FINANCIAL HIGHLIGHTS

Summary of operation results, assets and liabilities, cash flows and main financial rates are as follows:

Consolidated Statement of Comprehensive Income

	For the year ended 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(restated)	(restated)	(restated)	(restated)
Revenue	**1,361,138**	1,726,488	1,433,104	967,392	1,203,989
Cost of sales	**(620,174)**	(585,846)	(558,326)	(596,295)	(449,525)
Gross profit	**740,964**	1,140,642	874,778	371,097	754,464
Other income	**14,537**	32,127	1,552	3,074	517
Other expenses	**(11,085)**	(24,627)	(12,720)	(14,124)	(9,370)
Selling and distribution expenses	**(29,283)**	(23,847)	(23,208)	(16,120)	(206)
Administrative expenses	**(174,650)**	(148,674)	(111,273)	(114,355)	(75,232)
Finance costs	**(50,904)**	(278,549)	(35,598)	(22,431)	(168)
Profit before tax	**489,579**	697,072	693,531	207,141	670,005
Income tax expense	**(129,423)**	(241,048)	(180,846)	(61,019)	(196,495)
Total profit for the year	**360,156**	456,024	512,685	146,122	473,510
The owners of the Company	**361,342**	452,765	460,391	132,524	444,611
Non-controlling interest	**(1,186)**	3,259	52,294	13,598	28,899

Consolidated Statement of Financial Position

	For the year ended 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(restated)	(restated)	(restated)	(restated)
Current assets	**1,099,259**	1,209,230	792,813	1,008,479	460,952
Non-current assets	**1,572,431**	1,147,956	747,192	582,524	574,376
Current liabilities	**1,350,245**	1,094,581	812,058	800,051	354,362
Non-current liabilities	**–**	–	180,000	–	–
Equity attributable to the owners of the Company	**1,310,916**	1,260,941	478,121	650,033	554,042
Non-controlling interests	**10,529**	1,664	69,826	140,919	126,924

Consolidated Statement of Cash Flows

	For the year ended 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(restated)	(restated)	(restated)	(restated)
Net cash flows from operating activities	**491,675**	576,348	471,617	482,928	482,066
Net cash flows from investing activities	**(190,697)**	(375,130)	(376,830)	64,811	(435,195)
Net cash flows from financing activities	**(38,390)**	76,387	(65,242)	(537,202)	(41,581)

Selected Financial Ratios

	For the year ended 31 December				
	2012	2011	2010	2009	2008
		(restated)	(restated)	(restated)	(restated)
Gross profit margin	**54.44%**	66.07%	61.04%	38.36%	62.66%
Net profit margin	**26.46%**	26.41%	35.77%	15.10%	39.33%
Gearing ratio	**50.54%**	46.44%	64.42%	50.29%	34.23%
Return ratio of total assets	**21.46%**	50.07%	46.57%	17.48%	64.73%

CHAIRLADY'S STATEMENT

Dear shareholders,

First of all, I would like to thank all shareholders for the trust and support to the Company's board of directors and me. On behalf of the Board of China Hanking Holdings Limited, I am pleased to present to you the audited annual results of the Company for the year ended 31 December 2012.

I. Results Overview

In 2012, external environment for the Group's operations was complex and volatile, the US-led world's major economies have weak growth, especially China's economic growth was slowing down, and the gross domestic product ("GDP") fell to less than 8% for the first time in many years. China's iron and steel industry, as a locomotive driving mineral consumption, have experienced an embarrassing situation of almost industry-wide losses, which had a tremendous impact on the iron ore market, resulting in iron ore prices falling by an average of about 25%, bringing extremely negative impact to the Group's operations effect. In this turbulent market environment, the Group focused on productivity, controlling costs, strengthening internal control, prompting operators to work according to plan, and made the greatest efforts to mitigate the adverse impact of the market, and to get the best return for shareholders.

1. Operating indicators

The Group is one of the largest private iron enterprises in Northeastern China, and iron ore concentrates are the Company's main product. During the reporting period, the Group's sales revenue realized RMB1,361,138,000, representing a decrease of RMB365,350,000 as compared to last year, and the decrease was mainly due to the sharp decline of the sales price of iron ore concentrates. During the reporting period, the Group obtained a net profit of RMB360,156,000, representing a decrease of RMB95,868,000 as compared to last year, mainly due to the sharp reduction of about 22% in prices of iron ore concentrates; net gain per share is RMB0.20. The various mines' average per-ton iron ore concentrates cash operating cost is RMB355, which increased over last year mainly due to increase in resource tax rates and raw material prices.

2. Expansion construction

In 2012, the Group continued to promote the mining technological improvement and capacity expansion plan. Aoniu Mine 1st Processing Plant, on the basis of the successful completion of phase-I renovation and expansion, in compliance with the principle of "energy-efficiency", made bold innovation in beneficiation process, completed phase-II process and equipment large-scale transformation, and made the processing plant basically reach the expected ore processing capacity of 3 million tons per year. With new ore bodies found and reserves significantly increasing, after repeated demonstration and scientific planning, the Group started Maogong Mine's renovation and expansion project, the target of which is to expand the existing annual ore processing capacity of 1.1 million tons of processing plant of Maogong Mine to 3 million tons. Processing plant's construction has a smooth commencement in accordance with the established plan, and it is expected to complete in 2013. Benxi Mine continued to promote construction projects of transferring from open-air mining to pit mining, completed construction of slope pit mining, and achieved the goal of underground mining as per schedule.

CHAIRLADY'S STATEMENT *(CONTINUED)*

3. **Merger and acquisition development**

During the reporting period, the Group has accelerated the pace of merger and acquisition of new projects. It not only expanded iron ore resources and processing power in China's Liaoning Iron Mine Base, more importantly, it also achieved the development of international layout and diversified mineral resources, and injected oriented new impetus for the Group's continued growth. In 2012, the Group acquired Fushun Shangma in Fushun, Liaoning Province, formed full integration of "Aoniu – Shangma – Xingzhou" iron mines metallogenic belt, controlled the core ore segments of Fushun region's most important iron ore metallogenic belt, provided a broad space for the long-term development of the Group's iron ore business in China, and further consolidated the foundation for the Group's iron ore expansion. At the same time, in accordance with the international and diversified development strategy formulated by the Board, the Group acquired large nickel laterite project in the East South Sulawesi Province, Indonesia, signed Western Australia Southern Cross Gold Mine Project Assets Acquisition Agreement with St Barbara Ltd, and got the acquisition approval of the government of Australia. Through these acquisitions, the Group has officially entered the Iron-Gold-Nickel multi-metal, multi-product diversified stage, which will contribute to the Group's long-term continuous growth ability and shareholders' revenue growth potential.

4. **Resource and reserves**

In 2012, the Group continued to expand geological exploration work within the region and in the surrounding area of existing iron mines, and has achieved obvious results, with a total of 11,000,000 tons of iron ore resources proven, while this year, the Company's iron ore consumption is 5,962,000 tons. As at the end of 2012, the Group's iron ore reserves reached 174 million tons (2011: 167 million tons); iron ore resources reached 220 million tons (2011: 201 million tons). Through acquisitions, the Group increased nickel ore resources by 4,797,000 tons, and gold resources by 75 tons.

II. Company management and control

During the reporting period, the Group continued to be committed to maintaining high standards of corporate governance, and tried to maintain transparency and openness to shareholders. The Group followed the principle of prudent financial management and control, and improved the financial and audit reports, the information disclosure system and the internal fund monitoring system. Under the leadership of the Audit Committee of the Board, the Group has increased the intensity and scope of internal audit, and improved the internal control over project management, expenses, procurement and sales processes and other aspects. By providing and organizing a series of training on relevant professional skills, laws and regulations, engineering management, safety and environmental protection, etc., expertise, legal knowledge, production skills and management skills of the Group's management team and front-line staff are further enhanced.

With the efforts of the management, the Group's production safety management procedures are performed rigorously in place, and it continued to maintain the safety record of "zero death"; management team attached great importance to environmental protection, eliminated environmental pollution incidents, and exerted its best efforts in implementing the mine land reclamation recovery plan; management team strengthened the mine digitized construction, geological modeling, reserve estimation, mine design and production planning of all mines achieved three-dimensional modeling and information management; management team improved the information management of the woodland and land, mineral rights, and file, further enriched enterprise resource management database; management optimized the organizational structure, performance evaluation, cost management, contract management, and procurement processes, promoted human, financial and management to be more collaborative, and strengthened enterprise resource integration capability.

In meticulous management, the Group has also made significant progress. By recycling and producing the mine workshops' materials consumption statistics system, it implemented standardization of mines objects requisition, recording and measurement procedures, promoted material consumption and cost daily tracking, and laid the foundation for the implementation of cost real-time information management and control. Aoniu Mine developed production process of information management and control platform, established unified tracking and association systems on material consumption, process, equipment life cycle, inventory warning, key operational posts in mining and beneficiation production processes, and increased costs management capabilities.

III. Industry outlook

Through diversified development, the Group has expanded from pure iron ore operations to multi-mineral operation of iron ore, nickel ore and gold mining, has expanded from single business in China to countries such as Indonesia and Australia, and become an international mining group. The Group's business profitability model has undergone fundamental change, the product range has been enriched, and increased from single iron ore products to a diversified portfolio of iron ore concentrates, nickel ore, ferronickel and gold. Geographical diversification will help to reduce the risk of a single regional business, and diversification of the minerals will help to eliminate the risk of huge fluctuations in the market price of single minerals products.

Factors affecting the iron ore market and price are multidimensional, including the relationship between supply and demand, expected macroeconomic growth, steel market trends, geopolitical and financial environment. China will remain the main engine of growth for the global steel production in the foreseeable future years, and will continue to play a supporting role in the price of iron ore products. Organisation for Economic Co-operation and Development predicts that China's GDP growth in 2013 will be higher than 2012 level. Therefore, in the short to medium term, there is still some potential for the expansion of China's iron and steel production, which should have a strong supporting effect for the demand for iron ore products. From the supply side, although the world's largest iron ore producers insist on expansion strategy, the bottlenecks of logistics and transport conditions, financial conditions that restrict the expansion remain unresolved. It is unlikely to have a substantial increase in the global supply of iron ore products in short term. Overall, the relationship between supply and demand of iron ore products will maintain a "quasi-equilibrium" state in the near future, the price of iron ore will continue to run at higher level in 2013.

Consumption of nickel is mainly stainless steel industry, and stainless steel market and the relationship between supply and demand are the most important factors affecting nickel ore market. China is the leading global stainless steel producer, accounting for more than half of world production, and has an important impact on the nickel ore market. With the dwindling of nickel sulfide ore and year-by-year increase in nickel metal extraction costs, the development and utilization of nickel laterite gradually become the main source of supply of nickel metal. In recent years, the nickel laterite pyrometallurgical technology has been developed by leaps and bounds, has become the mainstream method of processing nickel laterite, and is widely used in the production of nickel-iron products with different nickel metal content. Nickel pig iron and ferro-nickel are the main raw materials for stainless steel smelting. After years of double-digit growth, China's stainless steel production has entered single-digit growth stage, but still higher than other steel types. Nickel prices reached a record high in 2008, experienced wide shocks, the current average price per tonne of nickel is about USD 16,500, in 2013, the market price of nickel metal will continue the pattern of low volatility. But in the long term, with increasing levels of human life, the social demand for stainless steel will continue to grow, which will determine the overall upward trend of the prices of nickel-metal products.

Gold is a special metal, with triple attributes of "currency, investment and commodity", and has been favored and sought after by people. In recent years, under intertwined influence of multiple factors such as the debt crisis in Europe, the U.S. policy of quantitative easing, geopolitics, and turmoil in financial markets, gold prices hit record highs, and are adjusted with shocks at high level of USD 1,600/ounce. In 2013, the U.S. dollar index and the financial markets will become the dominant factors for the gold price trend, especially with the start of a new global round of currency devaluation, the prices of gold will be still higher in the short term. In the long term, the U.S. dollar will continue to weaken, emerging economies will show a diversification of foreign exchange reserves, as a non-renewable rare and precious metal, gold prices will keep rising trend.

However, we have a clear understanding that the world's major economies' growth remained weak, the impact of the financial crisis has not yet fundamentally eliminated, some of the world's geopolitical hot issues are more prominent, all these uncertainties will directly or indirectly affect the mining market, causing short-term fluctuations and shocks in mineral prices, and even with the possibility of bulk mineral prices' quick callback in short term. Therefore, the Group has a cautiously optimistic attitude toward trends in iron ore, nickel ore and gold market in 2013.

IV. Development strategy

Diversification strategy. In 2013, the Group will deepen the implementation of the development strategy of diversification of mineral, which is while strengthening iron ore business, rapidly promoting the development of nickel ore business and gold mining business, and forming multi-mineral products manufacturing and commercial profit model with "iron ore as the main business, supplemented by gold the nickel". Iron ore is a bulk metal raw material, the food of the iron and steel industry; gold mine is precious metal with capitalized significance, and can play as a hedge against inflation; nickel ore is scarce metal with high extraction costs, and the main raw material of stainless steel and battery industries. Through appropriate multi-minerals assets and products portfolio, as mutual hedge to the adverse impact of market volatility, it is conducive to promote the healthy and stable development of the Company.

Low-cost strategy. One of the main features of the Group's operation is the low cost of production. The Group's concentrate cash operating costs are equivalent to about half of the average cash cost of the Chinese iron ores, which is the Company's core competitiveness. One of the priorities in 2013 is to implement in-depth refined management, and continue to strengthen low-cost advantage. Through the optimization and improvement of existing mining and beneficiation methods, improve the efficiency of product manufacturing, thereby reducing the manufacturing cost, and adhere to the technology roadmap of "more crushing and less grinding", and lower power consumption by reducing the grinding time.

Value chain strategy. Enhance value chain of "exploration - mining - mineral processing - smelting", and achieve balanced development of exploration, mining, processing and smelting. As a mine operators in the past two decades, the Group has accumulated rich experience in mining and mineral processing, but it just started productive prospecting in recent years. In the year of 2013, the Group will increase investment in geological prospecting. It not only will carry productive exploration, but also will expand the risk prospecting. In addition to iron ore production mines in China, the Group has won the large-area nickel ore and gold mining right and prospecting right by acquisitions in Indonesia and Australia, providing a broad space for the Company to carry out scale prospecting. The Group will play exploration professional talent team's advantage to the maximum extent, in existing prospecting areas, conduct target planning through information integration, extensively use modern exploration methods and means to expand its exploration activities, so as to discover new resources, and bring stable and sustainable returns for its shareholders.

Human resources strategy. Talent team is the backbone of the Company's sustainable development, quality resources are the core values of the Company, low-cost operator is the Company's core competency, and innovative thinking is the driving force behind the development of the Company. The Company has set up a pluralistic, complementary and strong Board, among twelve Directors, two are representatives of the substantial shareholders, four are from management, two external Directors are from Zijin Mining Group Co., Ltd. and SAIF Partners, and four independent Directors are from the financial/compliance, industry research, and financial fields; at the same time, senior management, prior to joining the Company, have worked in large international and domestic mining companies and other companies for many years, they formed an international operations team with extensive industry experience. The Group will continue to build the talent team with international background and experience, adhere to the team route of "internationalization and localization", namely to attract highly qualified management and technical personnel worldwide, and promote the localization of production team in the project site as much as possible, and the maximize the increase in local employment.

V. Business objectives

In addition to the iron ore concentrates, in 2013, the Group plans to produce nickel minerals, which will constitute a new mineral combination, and provide new impetus for the growth of the Group's business.

1. Iron ore business

In 2013, the Group's iron ore concentrate production plan is 1.815 million tons; to complete year's mining of 6.84 million tons, and stripping rock of 12.81 million tons.

Phase II renovation and expansion project of Aoniu Mine will be put into operation in April, Maogong Mine's iron ore concentrate processing plant construction project with annual output of 1 million tons will be put into use at the end of the third quarter, the supporting 3000kt/a ground mining engineering construction project will be officially launched in April 2013, during the year, we will complete construction tasks of infrastructure stage ramp, main shaft, auxiliary shaft and air shaft; Benxi Mine will comprehensively transfer to underground mining in mid-April 2013. In 2013, we will complete a new round of expansion of Maogong Mine and Shangma Mine; complete exploration approval of Aoniu Mine and Shangma Mine, and obtain Aoniu-Shangma metallogenic belt's new exploration right.

2. Nickel ore business

Indonesian laterite nickel project's mining plan in 2013 is 1.5 million tons, KS Mine and KKU Mine will basically reach designed production capacity. We will complete the construction of KKU Mine's wharf, roads and first mining area, which is expected to have mining output condition in May. In the first half of 2013, the design and starting construction of smelting will be completed, and the partial production of smelting is expected to realize by the end of year.

3. Gold mining business

The acquisition of 100% equity interest of SXO's gold assets has been approved by the Australian Government, the completion, planning and design of mine of which are expected to be finished by the end of April 2013, and will be submitted to the relevant government authorities for approval, and it is expected to start mine construction and production plan in early June.

VI. Social responsibility

The Group adheres to the tenet of "safe mining, harmonious mining, and green mining". Through efforts in promoting the construction of the mine environment, the Group has continued to build modern green mines. In 2012, the Group completed mine land and woodland reclamation of 230 mu in total, river transformation of a total length of 4,000 meters, and mine greening area is more than 30 mu.

The Group adheres to the development path of "recycling economy and comprehensive utilization", strives to build ecological mining complying to modern standards, and speeds up the pace of developing and utilizing the tailings. After two years of hard work, Maogong Mine's "tailings brickmaking" project has entered a substantive stage of operation. In 2012, the Group improved mine safety production monitoring system, improved employees' subjective awareness of safety production, continued to maintain record of "zero major environmental accidents and major accidents". While making efforts in well dealing with the village-enterprise relationship and government-corporate relationship, the Group is also actively involved in social welfare activities, and carried out "warmth-sending" to rural householders in hardship and other activities. Through training and education, the Group further strengthened the construction of soft environment of mines, and strengthened the employees' sense of social responsibility.

In accordance with established corporate vision, the Group will make efforts in building itself into a modern international mining enterprise which is "favored by staffer, assured by shareholders, and trusted by society", create sustained returns for shareholder, and continue to make new contributions to society.

VII. Appreciation

On behalf of the Board, I hereby wish to express my heartfelt thanks to the management and all the staff of the Group for their great efforts and contributions over the last year, and express my sincere gratitude to all the shareholders, intermediaries and business partners for their support and trust in the Company.

Ms. Yang Min
Chairlady of the Board

19 March 2013


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MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

1. Analysis of Operation Environment

During the year of 2012, the global economy remains in the period of post-crisis reorientation and in the process of slow recovery, and the economy growth is still in downturn, leading to the slowdown in the growth of Chinese economy. The GDP for the year 2012 increased 7.8% as compared to last year. The current steel output in China shows a slight overall increase, despite its obvious drop in general growth rate. According to data from the National Bureau of Statistics of China, the national output of pig iron, crude steel and steel products in 2012 was 657,910 thousand tons, 716,540 thousand tons and 951,860 thousand tons respectively, representing an increase of 3.7%, 3.1% and 7.7% compared to last year.

The GDP of Liaoning Province in 2012 increased 9.5% as compared to last year, which was higher than the national average level. Central Economic Work Conference in 2012 has clearly stated that urbanization is the historical mission of our national modernization construction, and it's also the most potential one for domestic demands expansion. Under these circumstances, Liaoning Province will emphasis in facilitating the upgrading of equipment manufacture industry, constructing indemnificatory apartments and energy transportation equipments. The expansion of infrastructure and fix assets investment has pulled the demand for raw materials, including iron ores, and provided opportunities for the Group to realize its development strategy. Meanwhile, Liaoning Provincial Department of Land Resources has issued a notice, in which it stated 2012 shall be the year for improving and restructuring the provincial mining industry and for provincial mining order, so as to improve and rectify the mining industry sufficiently, which constituted a powerful support for the Group to integrate iron resources in this area.

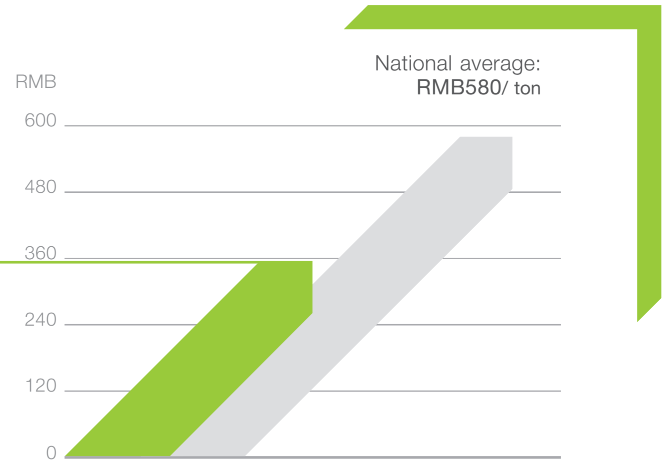
2. Business and Operation Review

For the year of 2012, the Group continued to facilitate the exploration of iron ores, which keeps the newly found reserve exceeding the consumption of resource. In the meantime, the Group further improves the capability of mining and the production capacity of iron ore concentrates by upgrading and reconstructing the current mines and equipments and constructing of new production facilities through a series of projects. In order to minimize the adverse impact upon single iron ores market brought by market fluctuation, while enhancing the domestic mine base, the Group also prudently expanded for minerals diversity by acquisition and developing of metal projects overseas, so as to promote the sound and steady development of the Company.

The Group completed the acquisition of Fushun Shangma in 2012. As Fushun Shangma is a common controlled entity of the ultimate controller of the Group, according to the accounting policy of the Group, the merger accounting for the common controlled entities should be as if they had been combined from the date when the combined entity or business first came under the control of the controller. Therefore, an adjustment restatement for the financial information of the Group in the previous financial years is required to be executed.

To be able to operate at low cost is the competitive edge of Hanking

RMB 355/ton



Source: Hatch Report

(1) **Major operation results**

During the reporting period, the Group continued to facilitate the exploration of iron ores, in 2012, the Group's iron ores output amounted to 6,934 thousand tons (2011: 5,841 thousand tons), representing a year-on-year increase of 18.7%; output of iron ore concentrates was 1,638 thousand tons (2011:1,542 thousand tons), representing an year-on-year increase of 6.2%; the sales amount reached 1,623 thousand tons (2011: 1,593 thousand tons, 59 thousand tons of which was agent sales); the gross profit was RMB740,964,000 (2011: RMB1,140,642,000) and the net profit was RMB360,156,000 (2011: RMB456,024,000); net earnings per share was RMB0.20 (2011: RMB0.29). The decrease in net profit compared to last year was mainly due to the slowing down in domestic economic growth. As a consequence, the selling price of iron ore concentrates decreased to RMB830 per ton in 2012, representing a decrease of 21.8%.

The average cash operation cost per ton of iron ore concentrate of all mines was RMB355 (2011: RMB292), which is mainly because that the general standard of resource tax has increased from RMB9 per ton to RMB12 per ton for iron ores since February 2012 and the increase in cost of raw materials. Although the cost of the operation in cash increased in 2012, the Group still maintained its core competitiveness by keeping a comparatively low cost in the industry.

(2) **Substantial Acquisitions**

To diversify and internationalize its mineral resources is the established strategy of the Company. While emphasizing the development and production of iron ore, the Group cautiously seeks to diversify the categories of its mineral resources, forming a multi-mineral production and business model, which is "a major focus in iron ores and supplemented by gold and nickel", so as to capture the opportunities to acquire and develop other high-quality ores resources, such as copper. On the basis of the strict control over significant risk factors, the Company will hedge the adverse effects brought by the fluctuations of the market by optimizing the asset and product portfolios of various ores. In 2012, the Group has proactively captured the opportunities to acquire Fushun Shangma, and has acquired the large laterite nickel mine located in Indonesia as well as the southern cross gold project in western Australia at the beginning of 2013, providing a valuable opportunity for the implementation of the development strategy of diversification and internationalization of the Group's mineral resources.

Fushun Shangma Mine

In order to facilitate the continuous expansion of the production capacity of iron ores, and amplify and strengthen the domestic iron ore base, the Group has completed the acquisition of 100% equity interest in Fushun Shangma in December 2012. Shangma Mine contains considerable resources reserves. As at 31 December 2012, the iron ore resources in Shangma Mine were approximately 21,252,000 tons, which substantially increased the Group's ore reserves. Besides, Shangma Mine is located at the central zone between Aoniu Mine and Xingzhou Mine. From the view of continuous development, the acquisition of Shangma Mine is beneficial to the integration of the three mines, in order to form a completed reconnaissance block from Aoniu Mine to Xingzhou Mine, and will expand the room for further development of the Group in the iron ore exploration and significantly enhance the potential of resource reserves.

Laterite Nickel Mine Located in Indonesia

Nickel is widely used in the field of consumable, military, transportation, aerospace, marine industry and construction industries. Many countries, including the PRC, have considered nickel as a strategic resource. In December 2012, the Company announced the acquisition of 70% equity interest in Northeastern Lion, which is in control of three project companies, namely the Large Laterite Nickel Mine located in North Konawe Regency, South East Sulawesi Indonesia, with its measured and indicated nickel resources and the inferred nickel resources as approximately 3.75 million tons and 1.04 million tons respectively. Currently, one of the project companies has commenced mining and selling laterite nickel, and the Group possesses an alchemical technique for laterite nickel mining and metallurgy, which can be applied in Indonesia and has economic feasibility. The Group believes that this acquisition will provide the Group with a precise opportunity to get into the nickel market with comparatively low risk. Not only will it be complementary to the Group's existing business and further enhance the Group's operations as a whole, but it will also help to realize the development strategy of diversification and internationalization of the Company's mineral resources and promote the Group to become an international mining company.

On 4 March 2013, the acquisition had been approved on the extraordinary general meeting.

Southern Cross Gold Mine in Australia

In January 2013, the Group announced the acquisition of 100% equity interest in SXO's gold assets located in the centre of Yilgarn goldfield in western Australia. SXO currently has a proven, indicated, inferred gold resource complied with the JORC standard of around 2.4 million ounces, at an average grade of 3.6 g/t gold. SXO gold mine has high quality and rich gold resources as well as good production and transportation facilities. The Group believes that leveraging on the extensive experience of the management of the Company in the gold mining, advanced production and operation in respective development and further investment in exploration in such field in the future, the operation of SXO will be recovered and expanded and hence expanding the Group's sources of revenue and earnings base, that promote the continued growth of the business of the Company.

The acquisition has obtained approval from Australia's Foreign Investment Review Board on 14 February 2013.

(3) **Increment in Iron Ore Reserves**

Resources are the core assets of the Company. Being the largest independent privately-owned iron ore concentrate producer in the northeast area, the Group has been committed to expanding the iron ore reserves and obtain high quality iron ore resources with lower risks and costs through continuous investment in the existing mine areas and the surrounding geological exploration.

In 2012, the Group invested a total exploration capital of RMB9,323,000 (2011: RMB31,022,000), among which, RMB3,077,000, RMB2,416,000, RMB494,000 and RMB3,336,000 were invested by Maogong Mine, Aoniu Mine, Benxi Mine and Shangma Mine, respectively. The average expenditures incurred by the increased iron ore exploration is only RMB0.81 per ton. Meanwhile, an exploration prospective area of the Group has been greatly increased through the acquisition of Shangma Mine which located at the middle zone between Aoniu Mine and Xingzhou Mine during the reporting period.

In 2012, the prospecting project of the Company started from 1 March to 10 November, which lasted more than eight months. Meanwhile, the drilling exploration engineering in the four iron mines, Maogong Mine, Aoniu Mine, Mengjia Mine, Shangma Mine was carried out, a total of 126 holes were completed, with a total footage of 29,647.19 meters and an average hole depth of 235.30 meters.

As of the end of 2011, the Group owned 201 million tons of iron ore resources that complied with the JORC standards. By conducting various explorations as well as mining acquisitions in 2012, the iron ore resources had a net increase of 18,641 thousand tons, reaching 220 million tons, representing a year-on-year increase of 9.45%. The reserve of the Shangma Mine is 21,253 thousand tons at the end of 2012. As of the end of 2012, the quantity of iron ore resources stored in each mine was as follows:

		2012		
Mines	**Types**	**Increased Amount (ton)**	**Resources Amount (ton)**	**TFe (%)**
Aoniu Mine	Indicated		7,611,349	32.88
	Inferred	2,773,000	14,134,000	32.33
Sub-total of Aoniu Mine		2,773,000	21,745,349	32.52
Maogong Mine	Indicated	1,525,000	33,345,020	32.29
	Inferred	529,000	9,135,050	30.15
	Inferred*		217,700	22.47
Sub-total of Maogong Mine [1]		2,054,000	42,697,770	31.77
Luobokan Mine	Indicated		33,029,198	30.88
	Inferred		27,779,010	30.65
	Indicated*		63,722,270	22.76
Sub-total of Xingzhou Mine		0	124,530,478	26.67

1 In the year of 2011, Maogong Mine recorded an increase of 35,504.9 thousand tons of resources through exploration activities, which has been recorded and confirmed by the Reserves Record Committee of the Department of Land and Resources of Liaoning Province on 15 May 2012.

		2012		
Mines	**Types**	**Increased Amount (ton)**	**Resources Amount (ton)**	**TFe (%)**
Mengjia Mine	Indicated	318,000	6,628,508	26.14
	Inferred	104,000	2,674,000	26.14
Sub-total of Benxi Mine		422,000	9,302,508	26.14
Shangma Mine	Indicated	3,185,000	5,179,467	30.82
	Inferred	3,130,000	16,073,200	30.77
Sub-total of Shangma Mine		6,315,000	21,252,667	30.79
Total	Indicated	5,028,000	85,793,542	31.21
	Inferred	6,536,000	69,795,260	30.78
	Indicated*	0	63,722,270	22.76
	Inferred*	0	217,700	22.47
	Indicated+ Inferred+ Indicated*+ Inferred*	11,564,000	219,528,772	28.70

* represents sub-marginal economic ore body

As at the end of 2011, the Group owned 167 million tons of iron ore resources that complied with the JORC standards. By conducting various explorations and acquisition of mines in 2012, the iron ore resources had a net increase of 7,241 thousand tons, reaching 174 million tons. As at the end of 2012, the quantity of iron ore resources stored in each mine was as follows:

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

		2012		
Mines	**Types**	**Increased Amount (ton)**	**Reserves (ton)**	**TFe (%)**
Aoniu Mine	Probable Ore Reserve	924,333	12,322,682	25.69
Maogong Mine	Probable Ore Reserve	1,701,333	36,390,037	26.93
	Probable Ore Reserve*	0	72,567	22.47
Luobokan Mine	Probable Ore Reserve	0	42,288,868	26.49
	Probable Ore Reserve*	0	63,722,270	19.45
Mengjia Mine	Probable Ore Reserve	387,333	8,354,224	20.91
Shangma Mining	Probable Ore Reserve	4,228,333	10,537,200	25.90
Total	Probable Ore Reserve	7,241,333	109,893,012	26.05
	Probable Ore Reserve*	0	63,794,837	19.45
	Probable Ore Reserve+ Probable Ore Reserve*	7,241,333	173,687,848	23.72

* represents sub-marginal economic ore body

(4) **Management of Projects and Expansion of Iron Ore Production Capacity**

As of the end of 2012, the Group obtained 10.796 square kilometers of areas with mining rights. In order to further improve the mining capability and expand the capability of iron ore concentrates of the existing mines, the Group put more efforts on the expansion and reconstruction by carrying out a series of construction projects to upgrade and reconstruct the existing mines and construct new production facilities, which has significantly enhanced its production scale. The Company has 4 key construction projects in 2012, which include the second phase of the technology improvement of the first processing plant of Aoniu Mine, mining works in Aoniu Mine, reconstruction and expansion of processing plant with annual capacity of 3 million tons in Maogong Mine and mining works in Benxi Mine.

Aoniu Mine
Since phase I of the technology improvement has shown a preliminary satisfactory result, phase II of the technology improvement of the first processing plant of Aoniu Mine has officially begun in February 2012. As at the end 2012, the civil construction of the thickening pond was completed and has partially been put into production; the main plant is in its final phase and the expected trial production will take place in the first half of 2013. The underground mining works in Aoniu Mine have already started in the mid of April 2012. As at the end of 2012, the Group had completed 80% of the process and formed its production capability at an initial stage.

Maogong Mine
High grading magnetic iron ore was found in Maogong Mine, and potential still presents in a further increase of ore reserves in the region. As at the end of 2012, 90% of the main body of civil construction of the main plant at the selected site of Maogong Mine has been completed, the central ore pocket has been finished; the main body of the 66kv substation has been finished and is ready for equipment installation; 40% of the civil works of coarse crushing workshops, screening and dry separation workshops and refuse bin have been completed; the 50m thickeners have been gradually transported to the site and ready for installation; the whole project is expected to be put into trial production by the end of 2013.

Benxi Mine
Starting from November 2011, the Benxi Mining has started the mining project with annual capacity of 1.2 million tons, the design of which is combined with the adoption of shafts and ramps. As at the end of 2012, the tunneling for the ramps has been completed and entered into mining period. Meanwhile, the main well towers foundation is also completed and ready for equipment installation, 87% of the process had been completed.

(5) **Promotion of the Construction of Safe and Environmental-friendly Mine**

The Group has always adhered to the objective of “Safe Mine, Harmonious Mine, Green Mine”. We made equal efforts in the engineering construction of safety management and environment protection as well as the development of the enterprise while pursuing profits. In order to ensure the work safety, the Group has actively developed and completed various safety rules and regulations, completed the Safety Production Reward System, developed strict safety production responsibility assessment objectives and signed Target Responsibility Documents with the general manager of each mine, which linked the effectiveness of safety production to the personal economic interests, promotion and assessment, and has implemented the one-vote of safety system to effectively ensure the effective implementation of safety production management. The Group actively strengthened the safety education and training for employees, and improved their safety awareness and quality of safe operation skills by a combination of internal and external safety education, training and effective promotion. In order to ensure the safety of employees and avoid accidents, we have implemented safety reporting system at each mine site and processing plant, which timely discovered and effectively monitored all kinds of security risk through the intensive safety examine work and enhanced safety examine system of “daily, weekly, monthly, quarterly, occasional and mutual” inspection to positions.

During the reporting period, the Group has achieved the safety goal of "zero" fatalities in four consecutive years, and has achieved the safety goal of zero accidents in connection with major equipment, transportation and fire. The rates of safety education training, attendance with special operation certificate, and accident reporting and dealing has reached 100%.

The Group is committed to building a high level of safety and environmental protection system, and has taken a great amount of environmental protection measures in the operation to minimize the impact on the environment during the production process. In the aspect of reclamation, the Group has carried out mining pit backfilling, soil restoration, tree planting and other activities; and in relation to recycling economy, the Group has maximized the recovery of dressing plant and tailings pond, recycled the waste water, recycled the gangue and used it as paving and construction material; as regard to improvement of mine production environment, the Group has used a variety of noise control methods (e.g. muffler) to reduce the noise level, and has used dust removal equipment to improve the operating environment, while for energy saving, the Group has used new technologies and processes (e.g. high-pressure roller mill) to reduce the consumption of energy and other materials.

The Group will continue to stick to the development strategy centered on "recycling economy and comprehensive utilization", and make further promotion in soft environment building of mines as well as endeavor to develop its mines into the green mines that comply with the national standards on low carbon emissions, and prudently perform the enterprises' social responsibilities.

3. Employees and Remuneration Policy

As at 31 December 2012, the Group had a total of 2,095 employees (as of 31 December 2011: a total of 1,885 employees).

As of 31 December 2012, the aggregate remuneration expenses and other employee benefits costs of the Group amounted to RMB144,637,000[1] (2011: RMB100,822,000). Employee costs included basic salary, commission and bonus, housing allowance, pension, medical insurance, occupational injury insurance and other insurance required by the government. In accordance with the remuneration policy of the Group, income of employees is related to the operation and performance of the Group. Through performance assessment, different incentive measures have been formulated for employees at different stages of their development to enhance the operation performance of the Company.

The development of talents is the key factor of the sustainable development of the Group. During the reporting period, through researching on compensation resolutions set by the same industry and the same type of positions, extension of the additional recruiting platform and improvement in the human resource allocation, human resources of the Company have been greatly enhanced, which helped to build a solid foundation for the Group with an experienced international talents team.

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[1] *Reference is made to the annual results announcement of the Company dated 19 March 2013, due to unwilful default, relevant statement is not correct therein and disclosure herein shall be prevailed.*

The Group improved the professional and occupational skill of the managers above the middle management level to cope with the demands of the Company's rapid development during the process of internationalization. During the reporting period, the Group arranged 4 production training programmes, 11 management training and 7 comprehensive quality enhancing training. With these training programmes, the Group improved the working skills and safety control awareness at the front line of production, enriched the managers' operational and professional knowledge and facilitated the improvement of the managers' ability.

4. Finance Review

(1) Revenue, Cost of Sales, Gross Profit

For the year of 2012, the Group's revenue was approximately RMB1,361,138,000, representing a decrease of RMB365,350,000 or 21.2% over last year, mainly due to the decrease in unit selling price of iron ore concentrates.

For the year of 2012, the Group's cost of sales was approximately RMB620,174,000, representing an increase of RMB34,328,000 or 5.9% over last year, mainly due to the increase of unit sales cost resulting from the increase of resources tax etc.

For the year of 2012, the Group's gross profit was approximately RMB740,964,000, representing a decrease of RMB399,678,000 or 35.0% over last year, mainly due to the significant decrease of average selling price of iron ore concentrates.

(2) Other Income and Expenses

For the year of 2012, the Group's other income was approximately RMB14,537,000, representing a decrease of RMB17,590,000 or 54.8% over last year. Other income included interest income and government subsidy income. The decrease was mainly due to the reduction of the subsidy of the government.

For the year of 2012, the Group's other expenses were approximately RMB11,085,000, representing a decrease of RMB13,542,000 or 55.0% over last year, which was mainly due to the listing expense of RMB32,448,000 incurred in 2011; in addition, for the year of 2012, the Group's net foreign exchange loss was approximately RMB2,166,000, while the foreign exchange gain in 2011 was RMB13,380,000, which mainly due to the occurrence of foreign exchange loss arising from the devaluation of the US dollar against the RMB.

(3) Selling and Distribution Expenses, Administrative Expenses

For the year of 2012, the Group's selling and distribution expenses were approximately RMB29,283,000, representing an increase of RMB5,436,000 or 22.8% over last year. The increase mainly due to that the transportation expense for the sale of Shangma Mine was paid by the buyer in 2011, but was borne by the Group in 2012.

For the year of 2012, the Group's administrative expenses were approximately RMB174,650,000, representing an increase of RMB25,976,000 or 17.5% over last year. Administrative expenses included salary paid to the Group's managers and administrative staff, depreciation and amortization, leasing and office expenses, operation development expenses, professional counseling and service expenses, taxation expenses and others.

(4) Finance Costs, Income Tax Expense

For the year of 2012, the Group's finance costs were approximately RMB50,904,000, representing a decrease of RMB227,645,000 or 81.7% over last year. Finance costs included bank borrowings interest expenses, discount interest expenses, and other finance loans interest expenses. The decrease was mainly due to private interest of borrowings for listing issuance in the previous period.

For the year of 2012, the Group's income tax expenses were approximately RMB129,423,000, representing a decrease of RMB111,625,000 or 46.3% over last year. Income tax expenses included the total amount of tax currently payable and deferred tax. In 2011 and 2012, the Group's effective tax rate was 34.6% and 26.4%, respectively, based on deducted tax in the consolidated statement of comprehensive income and profit before tax.

(5) Profit and Total Comprehensive Income for the Year

Based on the above reasons, in 2012, the Group's profit and total comprehensive income for the year was approximately RMB359,829,000, representing a decrease of RMB96,195,000 or 21.1% over last year. During the reporting period, the Group's net profit margin was 26.4%, which is in line with that of last year. The reason for that the net profit was in line with last year despite the decrease in unit selling price of iron ore concentrates during the period was that the one-off private borrowing interest relating to the listing occurred in last year.

(6) Property, Plant and Equipment, Inventory

For the year of 2012, the Group's property, plant and equipment were approximately RMB861,322,000, representing an increase of approximately RMB351,625,000 or 69.0% over last year, mainly due to building plants, offices, tailings and acquiring machine equipment to expand production capacity.

For the year of 2012, the Group's inventory was approximately RMB92,247,000, representing an increase of approximately RMB37,125,000 or 67.4% over last year, mainly due to the increase of the inventory of iron ores and iron ore concentrates at the end of the year.

(7) Trade and Other Receivables, Payables and Other Payables

For the year of 2012, the Group's trade receivables were approximately RMB143,982,000, representing a decrease of approximately RMB89,161,000 over last year, mainly due to the decrease in bank notes receivables.

For the year of 2012, the Group's other receivables were approximately RMB227,880,000, representing an increase of approximately RMB23,081,000 over last year, mainly due to the payment of tax deposit for resource tax, which is related to certain resources tax and local tax policies regulated by the local tax bureau.

For the year of 2012, the Group's trade payables were approximately RMB29,672,000, representing a decrease of approximately RMB2,736,000 or 8.4% over last year, mainly due to the Group made certain payables to suppliers pursuant to the contract.

For the year of 2012, the Group's other payables were approximately RMB231,680,000, representing a decrease of approximately RMB2,000,000 or 0.9% over last year.

(8) **Cash Use Analysis**

The summary of the Group's consolidated statement of cash flow for the year of 2012 was set out below.

	For the year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Net cash flows from operating activities	**491,675**	576,348
Net cash flows from investing activities	**(190,697)**	(375,130)
Net cash flows from financing activities	**(38,390)**	(76,387)
Net increase in cash and cash equivalents	**262,588**	277,605
Cash and cash equivalents at the beginning of the year	**317,563**	53,439
Effect of changes in foreign exchange rate on cash and cash equivalents	**(2,166)**	(13,481)
Cash and cash equivalents at the end of the year	**577,985**	317,563

The net cash used in the operating activities during 2012 was RMB491,675,000, which was mainly attributed to the profit before tax of RMB489,579,000 and a depreciation of RMB62,750,000, partially offset by the increase of RMB37,125,000 of inventory and the income tax expense of RMB129,423,000.

In 2012, the net cash outflow from the investing activities amounted to RMB190,697,000, which mainly reflected the amount of RMB354,868,000 used in the construction of the underground pits and the acquisition of properties, plants and equipment in Benxi Mine and Aoniu Mine, the prepaid lease payment of RMB125,678,000 in relation to the application of additional land use rights in the mining areas, and the amount of RMB25,327,000 used in the purchase of intangible assets and was offset by the repayments from related parties RMB316,151,000, the business occurred before the acquisition of Fushun Shangma.[1]

1 *Reference is made to the annual results announcement of the Company dated 19 March 2013, due to unwilful default, relevant statement is not correct therein and disclosure herein shall be prevailed.*

During 2012, the net cash inflow generated from the financing activities was RMB38,390,000, which represented new banking borrowing of RMB920,000,000, the repayment of bank loans of RMB369,946,000 and the repayment of the borrowings payable to the connected parties of RMB319,444,000, the business occurred before the acquisition of Fushun Shangma, the net cash outflow as a deemed distribution to shareholders of RMB214,008,000 and the distribution of dividend of RMB38,430,000.[1]

(9) Bank borrowings

As at the end of 2011 and 2012, the bank borrowings of the Group were approximately RMB299,943,000 and RMB800,000,000, the increased bank borrowings are used to enhance cash reserves of the Company and payment of the funds of the acquisition as well as capital expenditures, which is also the main factor of net current liabilities of RMB235,686,000 recorded by the Company as at 31 December 2012. Directors believe that, in consideration of existing utilizable bank facilities and internal financial resources, the Group has sufficient operation resources to meet its current requirement in at least 12 months from the date of consolidated financial statement.

(10) Net Current Asset, Gearing Ratio, Interest Rate Risk, and Foreign Exchange Risk

As at the end of 2012, the net current asset of the Group was RMB-250,986 thousand, an irrevocable facility of RMB300 million with a term of two years was obtained by the Group from a commercial bank.

The gearing ratio of the Group increased from 46.4% on 31 December 2011 to 50.5% on 31 December 2012.

The interest rate risk in the fair value of the Group mainly relates to the bank borrowings. The bank borrowings of the Group are usually due within one year and all with fixed rate, and therefore, the interest rate risk in its fair value is relatively remote. There is no hedging policy currently prevailing in the Company. Nevertheless, the management of the Group monitors the interest rate risk, and may consider taking hedging measures as appropriate on the occurrence of significant interest rate risks.

The businesses of the Group are located in China, and its major operating transactions are dominated in RMB. In addition to certain payable professional expenses dominated in HK dollars and US dollars mainly arising from the listing, most of the assets and liabilities of the Group are dominated in RMB. Since RMB is not freely convertible, the risk that the Chinese government may take measures to interfere the exchange rates, may have impact on the Group's net asset value, profit and the dividends declared to the extent that such dividends are subject to foreign exchange, and we have no hedging measures against such exchange risks.

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1 *Reference is made to the annual results announcement of the Company dated 19 March 2013, due to unwilful default, relevant statement is not correct therein and disclosure herein shall be prevailed.*

(11) Assets Securities, Contingent Liabilities and Dividends

As at 31 December 2012, the aggregate net carrying value of the assets used as securities amounted to RMB270 million, while the aggregate net carrying value of the assets used as securities amounted to RMB376 million at the end of 2011. Both of them are secured by the mining rights certificates and bills receivable.

As of 31 December 2011 and 31 December 2012, the Group had no material contingent liabilities.

The Board recommended the payment of the final dividend for the year ended 31 December 2012 to the Shareholders of the Company, with a cash bonus of RMB0.020 per share. The payment of the dividend will be conditional upon the approval of the shareholders at the forthcoming annual general meeting of the Company.

(12) Use of the Proceeds

The proceeds raised from the listing of the Company amounted to HK$828,300,000. As at 31 December 2011, the remaining proceeds was HK$45,800,000. In 2012, HK$9,400,000 of the proceeds was applied for updating and expanding of existing mining area and production facilities, and the remaining HK$36,400,000 has been used for the payment for the acquisition of Fushun Shangma in 2013.

(13) Material Acquisitions and Disposals

Please refer to item (2) "Substantial Acquisitions" of "Business and Operation Review" under "Management Discussion and Analysis" in this report for details.

(14) Expenditure of Exploration, Development and Mining Production Activities

The Group's total expenditure of exploration, development and mining production activities increased from approximately RMB472,644,000 in 2011 to approximately RMB627,166,000 in 2012. Expenditure incurred in 2012 mainly included: (i) the expense of RMB496,815,000 in property, factory and equipment; (ii) land lease payment of RMB121,028,000 for the acquisition of mining lease; and (iii) the exploration expense of RMB9,323,000.

(15) Capital Commitments

The Group had capital commitments of approximately RMB138,848,000 in 2012, which increased RMB104,594,000 or 305.3% as compared to last year. The capital commitments mainly consisted of the expenditure of RMB79,839,000 for reconstruction and expansion of processing plant with annual capacity of 3 million tons in Maogong Mine; the expenditure of RMB37,765,000 for mining works in Benxi Mine and Aoniu Mine; and the expenditure of RMB12,499,000 for the second phase of the technology improvement of the first processing plant of Aoniu Mine. The increase was mainly due to the Company will start new engineering projects in the future.

5. Future Outlook

Looking forward into 2013, the Group will implement construction investment plan in large scale and continue to strengthen the Liaoning iron ore base, meanwhile, to specifically emphasize the development of nickel and gold mines acquired by the Group recently. The entrance of nickel and gold mines diversified the product portfolio of mineral assets and products, which could help the Group reduce the adverse effect arising from market price fluctuation of a single mineral product and promote the long-term and stable development of the Group's business.

In respect of the anticipation that the world's major economies warmed up gradually, the growth in Chinese iron and steel enterprises in 2013 is expected to rejuvenate and the demand for iron ore will be improved. Moreover, coupled with a strong rebound in domestic iron ore market since the end of last year, iron ore prices are expected to be higher compared to the year of 2012. The Group holds a cautious and optimistic attitude about the outlook in the iron ore market.

Looking forward, the Group expects that Aoniu Mine and Maogong Mine will become modern mines with a yield capacity of "one million tons" of iron ore concentrates annually upon the completion of investment plans, which will improve the capacity of the Group's iron ore concentrates significantly. Meanwhile, according to the initial plan, upon the acquisition of laterite nickel mine located in Indonesia and gold ores located in western Australia, production capacity of the nickel mine and gold ores will be stably improved and it is expected that in 2013 the nickel ore business will produce nickel ore 1,500,000 tons and nickel metal over 10,000 tons every year, and the gold mining business will reach a capacity of 3 tons of gold annually, which will inject new momentum into the Group in continuing improving revenue and profitability to promote the stable development of the Group's business in the long term and generate greater returns for shareholders of the Company.

REPORT OF THE DIRECTORS

1. Principal Activities

The principal activities of the Group are iron ore mining and the production and sale of iron ore concentrates. Details of the principal subsidiaries of the Company are set out in note 40 to the consolidated financial statements.

2. Results

The profit of the Group for the year ended 31 December 2012, and the position of the Company and the Group as at that date are set out on pages 71 and 73 to the financial statements.

3. Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group and the Company for the year ended 31 December 2012 are set out in note 18 to the consolidated financial statements.

4. Share Capital

As at 31 December 2012, the total number of authorized shares of the Company was 10,000,000,000 shares with HK$0.1 each, the total authorized capital was HK$1,000,000,000, and the number of shares in issue is 1,830,000,000 shares. During the year, there was no change in the share capital of the Company.

5. Pre-Emption Right

Pursuant to the Articles of Association and the laws of the Cayman Islands (the place where the Company incorporated), no provision in relation to pre-emption rights shall be applicable to the Company.

6. Reserves

Details of movements in the reserves of the Company and the Group during the year are set out on page 74 to 75, among which, details of reserves distributable to the equity holders of the Company are set out on page 74.

7. Dividends

The Board recommended the payment of the final dividend for the year ended 31 December 2012, with RMB0.020 per share. The payment of the dividend will be conditional upon the approval from the shareholders at the annual general meeting of the Company to be held on 31 May 2013.

All dividends to be distributed will be denominated and declared in RMB and will be paid to shareholders of the Company in Hong Kong dollars. The amount of dividends payable in Hong Kong dollars shall be calculated based on the average benchmark exchange rate of RMB to Hong Kong dollars announced by the People's Bank of China between Thursday, 6 June 2013 and Thursday, 13 June 2013. The aforesaid dividends are expected to be paid on or around 21 June 2013 to those shareholders whose name appears on the register of members as at 13 June 2013.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 27 May 2013 to Friday, 31 May 2013 (both days inclusive, 5 business days in total) to determine the entitlement to attend and vote at the annual general meeting and from Thursday, 6 June 2013 to Thursday, 13 June 2013 (both days inclusive, 5 business days in total) to determine the entitlement to the final dividend during which periods no transfer of shares shall be registered. In order to attend and vote at the 2013 annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Friday, 24 May 2013. In order to participate in the payment of a final dividend in respect of the year ended 31 December 2012, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, 5 June 2013.

8. Purchase, Redemption or Sale of Listed Securities of the Company

For the year ended 31 December 2012, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

9. Major Customers and Suppliers

For the year ended 31 December 2012, the purchase from the Company's five largest suppliers (as defined in the Listing Rules) in aggregate accounted for 61.34% of the Company's total purchase for the year. In particular, the total purchase from the largest supplier accounted for 26.62% of the Company's total purchase for the year.

For the year ended 31 December 2012, the sales to the Company's five largest customers in aggregate contributed 98.58% to the Company's total sales for the year. In particular, the sales to the largest customer contributed 57.34% to the Company's total sales for the year.

So far as the Directors are aware, except for Fushun Hanking D.R.I (details of which are set out in the item 21 "Connected Transactions" of this section), none of the Directors, associates of Directors or shareholders of the Company (who, to the knowledge of the Directors, owns more than 5% of the Company's issued share capital) had any interest in the five largest suppliers (as defined in the Listing Rules) or customers during the year.

10. Bank Loans and Other Borrowings

Details of bank loans and other borrowings of the Group as of 31 December 2012 are set out in note 29 to the financial statements.

11. Directors and Senior Management

The following table sets forth certain information concerning the Directors and senior management of the Company during the year and up to the date of this report:

Name	Position in the Company	Date of Appointment	Date of Resignation
Yang Min	Chairlady and Non-executive Director	25 February 2011	N/A
Yang Jiye	Vice Chairman and Non-executive Director	25 February 2011	N/A N/A
Kenneth Jue Lee	Non-executive Director	30 January 2012	N/A
Lan Fusheng	Non-executive Director	30 January 2012	N/A
Pan Guocheng	Executive Director, Chief Executive Officer and President	25 February 2011	N/A
Zheng Xuezhi	Executive Director and Chief Financial Officer	25 February 2011	N/A
Xia Zhuo	Executive Director and Joint Company Secretary	25 February 2011	N/A
Qiu Yumin	Executive Director and Vice President (the president of Hanking Australia Pty Ltd, a wholly-owned subsidiary of the Company as of the date of this report)	30 January 2012	N/A
Wang Ping	Independent Non-executive Director	25 February 2011	N/A
Johnson Chi-King Fu	Independent Non-executive Director	25 February 2011	N/A
Chen Yuchuan	Independent Non-executive Director	16 September 2011	N/A
Wang Anjian	Independent Non-executive Director	30 January 2012	N/A
Mao Guosheng	Non-executive Director	25 February 2011	30 January 2012
Lu Zengxiang	Executive Director and Vice President	25 February 2011	Resigned as an executive Director on 30 January 2012 and remained as the Vice President
Huang Jinfu	Executive Director and General Manager of Aoniu Mining	25 February 2011	Resigned as an executive Director on 30 January 2012 and remained as the General Manager of Aoniu Mining

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

12. Biographies of Directors and Senior Management

Detailed biographies of Directors and senior management are set out on page 64 to 68 of this annual report.

13. Directors' Service Contract

The Company has entered into a service contract with each of the Directors. The principal particulars of these service contracts include: (1) for a term of three years commencing from listing date (i.e. 30 September 2011) (Yang Min, Yang Jiye, Pan Guocheng, Zheng Xuezhi, Xia Zhuo) or for a term of three years commencing from the appointment date (Kenneth Jue Lee, Lan Fusheng, Qiu Yumin), and (2) are subject to termination in accordance with their respective terms.

The Company has signed a letter of appointment with each of the independent non-executive Directors, details of which including: (1) for a term of three years commencing from listing date (i.e. 30 September 2011) (Wang Ping, Johnson Chi-King Fu, Chen Yuchuan) or for a term of three years commencing from the appointment date (Wang Anjian); and (2) subject to termination in accordance with their respective terms.

Save as disclosed above, the Directors have not signed with the Company the service contract that cannot be terminated by the Company without compensation (exclusive of statutory compensation) within one year.

14. Remuneration for Directors and Top 5 Highest Paid Employees

Detailed information on remuneration for Directors and top 5 highest paid employees are provided in the note 14 and 15 to the financial statements.

For the year ended 31 December 2012, none of the Director has agreed with the Company to waive any remuneration.

The remuneration for the Directors with the Company was proposed by the remuneration committee, which would take into account remuneration of companies in the same categories, conditions of employment, responsibilities and individual performance when proposing the remuneration.

15. Director's Interests in Contracts of Significance

Save as disclosed in item 16 "Major Subsequent Events" and item 21 "Connected Transactions" in this report, as at 31 December 2012, the Company has not directly or indirectly concluded contracts of significance, in which any Director has material interests, and in which the Company is a party and which still remain valid any time during the year or at the end of the year.

16. Major Subsequent Events

(1) Acquisition of 70% Equity Interest in Northeastern Lion

On 20 December 2012, the Company entered into the Share Purchase Agreement with Evergreen Mining and Aoniu HK pursuant to which the Company has agreed to acquire, and Evergreen Mining has agreed to sell, 70% equity interest in Northeastern Lion for a total consideration of RMB311.8 million (the "Northeastern Lion Acquisition").

Northeastern Lion controls three project companies, KP, KS and KKU through City Globe and Denway Development (its wholly-owned subsidiaries). Those three project companies own the laterite nickel mine located in North Konawe Regency, South East Sulawesi Indonesia, which possess the measured and indicated nickel resources of 3.75 million tons and the inferred nickel resources of 1.04 million tons. In addition, each of the project companies has the Production and Business Permit for nickel with an expiration of 20 years, which covers an area of 7,869 hectares. Large lalerite nickel resources in this acquisition are abundant, and will help the Company to realize its development strategy of diversifying mining resources and internationalizing the Company's business, to further expand its business scope and enlarge the scale as well as to promote the long-term and steady development of business.

Due to the importance of nickel, the Company considers the Northeastern Lion Acquisition as a strategic investment. As the nickel resources involved in the Northeastern Lion Acquisition are rich and a nickel smelter with annual production capacity of 40,000 tons will be completed by the end of 2016, the acquisition is a precious opportunity for the Company to enter into the market of nickel, which will help the Company in diversifying mining resources, expanding the business scope and scale as well as becoming an international mining company.

One of the project companies, KS, has already commenced mining, and selling of laterite nickel ore and will gradually expand its mining capacity. Meanwhile, the Company has also acquired a laterite nickel ore smelter as well as a base for staff training and continuous improvement of the alchemical technique for laterite nickel ore in the PRC. In addition, the Company possesses an alchemical technique for laterite nickel mining and metallurgy, which can be applied in Indonesia and has economic feasibility.

Evergreen Mining is an indirectly wholly-owned subsidiary of Hanking Group, which is in turn owned as to 60.67% by Ms. Yang Min and 28.29% by Mr. Yang Jiye, each a non-executive Director and the Controlling Shareholder. As such, Evergreen Mining is an associate of both Ms. Yang Min and Mr. Yang Jiye and is therefore a connected person of the Company. Under Chapter 14A of the Listing Rules, the transactions contemplated under the Share Purchase Agreement constitute a connected transaction of the Company. As the highest applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of the Northeastern Lion Acquisition exceeds 5% but is less than 25%, the Northeastern Lion Acquisition constitutes (i) a disclosable transaction for the Company subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules; and (ii) a connected transaction for the Company subject to the reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company held an extraordinary general meeting on 4 March 2013 to approve Share Purchase Agreement and the transactions contemplated thereunder. The Controlling Shareholders and their associates have abstained from voting on the resolutions for the approval of the Share Purchase Agreement.

More details please refer to the announcement dated 20 December 2012, the circular dated 15 February 2013 and the poll result announcement of the extraordinary general meeting dated 4 March 2013.

(2) Acquisition of the Assets of Southern Cross Operations in Australia

On 8 January 2013, the Company, via its wholly-owned Australian subsidiary, Hanking Gold Mining Pty Ltd. ("Hanking Gold"), entered into an agreement with St Barbara Limited ("St Barbara"), a company listed on the Australian Securities Exchange with stock code of SBM, to acquire the assets of Southern Cross Operations ("SXO") (the "Acquisition Agreement").

SXO is a gold mining property located between Perth and Kalgoorlie in Western Australia, approximately 360 kilometres east of Perth, connected with major railroad and highways and about a 40-minute flight from Perth. The Southern Cross region is located in the centre of the world-famous Yilgarn Goldfields in Western Australia, with an accumulated historical gold production in excess of 10 million ounces. SXO covers approximately 120 kilometres strike length of the Southern Cross greenstone belt, with JORC reported Measured, Indicated and Inferred gold resources of approximately 2.4 million ounces (Moz) at an average grade of 3.6 g/t gold. SXO had been in operation until December 2012 and is currently on care and maintenance.

Pursuant to the Acquisition Agreement, Hanking Gold acquired 100% equity interests of the SXO assets from St Barbara (the "Acquisition"), including approximately 932 square kilometres of exploration and mining licenses containing the 2.4 million ounces gold resources, mine infrastructure, camps, office buildings, accommodation, equipment and processing plant. The gold processing plant has an annual processing capacity of 2.4 million tons by using the carbon in pulp and gravity processing methods.

The consideration for the Acquisition is 22.5 million Australian dollars. The Acquisition is subject to normal approvals of similar type of transaction including the approval from the Foreign Investment Review Board of Australia. Hanking Gold plans to resume and expand the operation of SXO through investments in its development and exploration activities as soon as practical. A preliminary study by the Company reveals that SXO has a potential annual gold production capacity of 200,000 ounces for 10 years. Further detailed mine development studies are being carried out.

The Acquisition is in line with the Company's strategy in diversifying mineral resources and business region with the basis of maintaining its core assets of iron mine in China. This will build a solid foundation for the Company to become an international mining operator. Combination of the gold asset to the Company's asset will enhance the sustainable growth capability of the Company as well as creating values for shareholders in the long-term.

Please refer to the announcement dated 8 January 2013 of the Company for details.

17. Directors' and Controlling Shareholders' Interests in Competing Business

(1) Excluded Businesses

I Benxi Iron Processing

Benxi Iron Processing was established in the PRC in July 2010. As at the Latest Practicable Date, it was 100% owned by Hanking Group. Benxi Iron Processing is engaged in the iron processing business only. The ore processing business engaged in by Benxi Iron Processing used to be operated under Benxi Hanking Mining Co., Ltd. (本溪罕王礦業有限公司) ("Benxi Mining"), subsidiary of the Company. Benxi Iron Processing has been excluded from the Group because the timing of obtaining the land use rights relating to the land on which its business is operated is uncertain. The reasons for this uncertainty are: (i) according to the urban planning programme (the "Programme") of Benxi City prepared by the government of Benxi City and approved by the government of Liaoning Province, the land of Benxi Iron Processing is preserved as the "green land" under the Programme, and therefore cannot be granted for use for other purposes, unless the Programme is amended and the use of such land is not restricted to "green" uses, (ii) if the planned usage of the land is not altered in the Programme, then Benxi Iron Processing will not be able to apply for the respective land use rights with the government authorities and (iii) according to applicable PRC laws, amendment of the Programme is subject to strict examination by government authorities at different levels (first by the government authorities of Benxi City and then finally approved by the government of Liaoning Province) and there is no official set time limit within which such procedures would be completed. Therefore, Benxi Iron Processing and Hanking Group cannot control or predict the timing as to when or whether such land use right can be obtained. In the event Benxi Iron Processing is required to relocate as a result of the lack of land use right, it should be able to relocate to a suitable site in a timely manner.

The Controlling Shareholders have confirmed to us that Benxi Iron Processing has been excluded from the Group because the timing of obtaining the land use rights relating to the land on which its business is operated is uncertain. As at the Latest Practicable Date, the urban planning programme is under review by related authorities and Benxi Iron Processing will only be able to apply for the land use rights after the urban planning programme is altered. Benxi Iron Processing may not be able to obtain the land use rights in the next year.

Since the land use right certificate(s) relating to the land on which the iron processing business is operated has(have) not been obtained and the timing of obtaining such certificates is uncertain, the iron processing business was then transferred from Benxi Mining and retained by Hanking Group. On 16 June 2011, Benxi Mining and Benxi Iron Processing entered into a processing agreement, pursuant to which, for a term of three years, Benxi Iron Processing will process the iron ores extracted by Benxi Mining and deliver the iron ore concentrates produced to Benxi Mining. While the Directors had considered a number of restructuring plans in connection with the proposed Listing, our Company chose not to transfer the land without proper title to Benxi Iron Processing during the reorganization for a number of reasons. First, despite the fact that ownership of land can be separated from ownership of the operations, given the importance of use of such land to Benxi Iron Processing, the Directors believed that it would not be commercially appropriate to separate the ownership of land from the overall business operations of Benxi Iron Processing. Second, the defect in the land title exists regardless of whether the operation of Benxi Iron Processing is transferred to our Company and as such, so long as Benxi Iron Processing continues to use the land for its processing operations, any defect in the land title, if not rectified, would have a potentially adverse impact on the operations of Benxi Iron Processing.

REPORT OF THE DIRECTORS *(CONTINUED)*

With its Controlling Shareholders for the use of the said land if only the operations of Benxi Iron Processing were transferred to our Company, which would constitute a new continuing connected transaction for our Company after the Listing. In the view of the Directors, such transaction would not be in the best interest of the Company because it would be difficult to assess and assign commercial value and derive the lease terms for the property being leased due to its inherent land title defect. In light of the above, and taking into account our Company's right to acquire Benxi Iron Processing after the listing should it be considered appropriate, the Directors believe that the current arrangement with respect to Benxi Iron Processing is the most prudent and sensible approach. As Benxi Iron Processing is an associate of Hanking Group (as defined under the Listing Rules), the entering into of the processing agreement constitutes a continuing connected transaction of the Group. Please refer the paragraph "Non-exempt Continuing Connected Transactions" in the section of "Connected Transactions" of this report for details of the Mineral Processing Agreement.

According to the Non-Competition Agreement (as described below), if and when the land use right certificate of Benxi Iron Processing is obtained, Benxi Iron Processing must promptly give notice to our Company and our Company has the right to purchase the interests of Benxi Iron Processing at a price determined by an independent valuer. Once the Company decides to exercise such right, after obtaining the approval of the independent non-executive Directors and/or the independent shareholders, as the case may be, Hanking Group, the owner of Benxi Iron Processing, is obliged to transfer its interests in Benxi Iron Processing to the Company. Therefore, our Directors are of the view that the Non-Competition Agreement can sufficiently safeguard our interest.

Financial Information for the Excluded Businesses (RMB million) (audited)

	As of 31 December 2012	As of 31 December 2011	As of 31 December 2010
Total assets	**48.4**	46.4	37.8
Total liabilities	**39.4**	39.1	32.1
Revenue	**28.5**	36.5	12.7
Profit/loss	**1.6**	1.7	0.7

(2) **Hanking Group**

Ms. Yang and Mr. Yang held 60.67% and 28.29% of the equity interests in Hanking Group, respectively. Other business interests held by Hanking Group include: 1) Benxi Iron Processing: Hanking Group holds a 100% equity interest in Benxi Iron Processing; 2) Shiyan Hanking Deshan Mining Co., Ltd. (十堰罕王德山礦業有限公司) (Shiyan Deshan), located in Danjiangkou City of Hubei Province, China. It has obtained mining permit on 20 October 2012, with a mining area of 1.894 square km. It operates underground mining for iron ores, and the production scale is 300,000 tons per year. In order to prevent potential compete, the controlling shareholders entered a non-competing agreement with the Group, in which stated that the Group had a right to decide whether to acquire Shiyan Deshan or not. However, Shiyan Deshan's land using right and property right still exposed to significant legal risk, therefore the Directors are in the view that it's not appropriate to acquire Shiyan Deshan at present.

(3) **Directors' and Controlling Shareholders' Positions in Competing Business**

As at 31 December 2012, save as disclosed below, Directors and their related associates have not held any interests in any business which the Company, either directly or indirectly or likely to compete against:

Name of Directors	Positions in the Company	Other interests
Yang Min	Chairlady and Non-executive Director	Chairlady of the Board of Directors of Hanking Group
Yang Jiye	Vice chairman and Non-executive Director	Vice chairman of the Board of Directors of Hanking Group
Xia Zhuo	Executive Director and Joint Company Secretary	Director of Hanking Group

(4) Facts demonstrating that the Company is capable of carrying on its business independently of, and at arms length from the excluded businesses are disclosed in the Prospectus.

18. Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 31 December 2012, the interests or short positions of the Directors or chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have taken under such provisions of SFO) or as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

(1) **Interests in the shares of the Company**

Name of Director or Chief Executive	Status/Nature of Interest	Number of Shares Held	Approximate Percentage of Shareholding
Yang Min[1]	Interest in controlled corporation	751,035,000 (long positions)	41.04%
	Founder of discretionary trust	29,953,500 (long positions)	1.64%
Yang Jiye[2]	Interest in controlled corporation	424,360,500 (long positions)	23.19%
	Interest in controlled corporation	31,100,000 (short positions)	1.69%
Xia Zhuo[3]	Others	165,651,000 (long positions)	9.05%
Zheng Xuezhi	Beneficial owner	50,000 (long positions)	0.00%

REPORT OF THE DIRECTORS *(CONTINUED)*

Notes:

1. Ms. Yang Min ("Ms. Yang") holds 100% interest in China Hanking (BVI) Limited and serves as settlor and beneficiary of management trust which holds the entire issued share capital of Best Excellence Limited. As a result, Ms. Yang is deemed to hold interest in 751,035,000 shares held by China Hanking (BVI) Limited and 29,953,500 shares held by Best Excellence Limited.

2. Mr. Yang Jiye ("Mr. Yang") holds 100% interest in Bisney Success Limited. As a result, Mr. Yang is deemed to hold interest in 424,360,500 shares (long positions) and 31,100,000 shares (short positions) held by Bisney Success Limited.

3. Mr. Xia Zhuo holds 6.28% interest in Splendour Ventures Limited, which holds interest in 165,651,000 shares of the Company.

(2) Interests in Associated Corporations of the Company

Name of Directors and Chief Executive	Interests in Associated Corporations	Number of Shares Held	Approximate Percentage of Shareholding
Yang Min	China Hanking (BVI) Limited	1	100%
Yang Min	Best Excellence Limited	1	100% (held through controlling management trust)*
Yang Jiye	Bisney Success Limited	50,000	100%
Xia Zhuo	Splendour Ventures Limited	3,138	6.3%

* The management trust is a revocable discretionary trust settled by Yang Min being the settlor with Credit Suisse Trust Limited as trustee for the purposes of recognizing and rewarding the contributions of certain eligible staffs ("Beneficiaries"). On 2 June 2011, China Hanking (BVI) Limited transferred 19,969 shares of the Company, representing approximately 1.6% of the share capital of the Company after the listing, to Best Excellence Limited. It is the intention of Yang Min and the trustee that the Beneficiaries of the management trust including Yang Min herself and two groups of eligible staffs. The first group comprises 11 persons who are employees of the Group including Mr. Pan Guocheng (潘國成), Mr. Zheng Xuezhi (鄭學志), Mr. Huang Jinfu (黃金夫) and Mr. Lu Zengxiang (路增祥), and these Beneficiaries may hold up to approximately 1.025% of the issued share capital of the Company. The second group comprises 16 employees of Hanking Group, and the aggregate maximum amount of shares to be received by this group of Beneficiaries is expected to represent approximately 0.612% of the issued share capital of our Company. Credit Suisse Trust Limited as trustee has the discretionary powers to, among others, allocate all or a portion of the trust fund of the management trust (including the shares held by Best Excellence Limited), but Yang Min, as settlor of the management trust, may request Credit Suisse Trust Limited as trustee to make distributions of such shares to one or more Beneficiaries, including herself. As at 31 December 2012, no decision has been made by Yang Min or the trustee with respect to any such distribution.

Save as disclosed above, as at 31 December 2012, none of the Directors and Chief Executives of the Company had any interest of short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO) which was required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short position taken or deemed to have under such provisions of the SFO), or which was required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

19. Substantial Shareholders' Interests or Short Positions in the Shares and Underlying Shares of the Company

As at 31 December 2012, to the best of Directors' knowledge, having made all reasonable enquires, the following persons (other than the Directors and senior management of the Company) own interests or short positions in the shares or underlying shares of the Company which shall be disclosed to the Company pursuant to Section 2 and 3 of Part XV of SFO or recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholders	Capacity/Nature of Interest	Number of shares	Approximate Percentage of Issued Share Capital
China Hanking (BVI) Limited	Beneficial owner	751,035,000 (long positions)	41.04%
Bisney Success Limited	Beneficial owner	424,360,500 (long positions)	23.19%
Bisney Success Limited	Beneficial owner	31,100,000 (short positions)	1.69%
Splendour Ventures Limited	Beneficial owner	165,651,000 (long positions)	9.05%
SAIF IV GP Capital Ltd.	Interest in controlled corporation	93,107,000[1] (long positions)	5.09%
SAIF IV GP LP	Interest in controlled corporation	93,107,000[1] (long positions)	5.09%
SAIF Partners IV L. P.	Beneficial owner	93,107,000[1] (long positions)	5.09%
Yan Andrew Y	Interest in controlled corporation	93,107,000[1] (long positions)	5.09%
PA Universal Opportunity Limited	Person having a security interest in shares	285,140,816[2] (long positions)	15.58%
Pacific Alliance Asia Opportunity Fund L.P.	Interest in controlled corporation	285,140,816[2] (long positions)	15.58%
Pacific Alliance Group Limited	Interest in controlled corporation	285,140,816[2] (long positions)	15.58%
Pacific Alliance Investment Management Limited	Interest in controlled corporation	285,140,816[2] (long positions)	15.58%
PAG Holding Limited	Interest in controlled corporation	285,140,816[2] (long positions)	15.58%

Note:

1. These 93,107,000 shares belong to the same group of shares.
2. These 285,140,816 shares belong to the same group of shares.

Save as disclosed above, the Company had not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

20. Management Contracts

For the year ended 31 December 2012, 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 part of business of the Group.

21. Connected Transactions

All the related party transactions disclosed at note 39 in the consolidated financial statements also constitute a connected transaction or continuing connected transaction as defined in the Listing Rules. The details of these transactions have been disclosed in accordance with Chapter 14A of the Listing Rules. The major connected transactions of the Group during the year ended 31 December 2012 are as follows:

(1) Non-exempt one-off Connected Transactions

The Group was involved in the following non-exempt one-off connected transactions in the current year:

1. Acquisition of 100% equity interest in Fushun Shangma

On 3 July 2012, Aoniu Mining, a wholly-owned subsidiary of the Company, entered into the equity transfer agreement (the "Equity Transfer Agreement") with Shenyang Toyo and Fushun Shangma. Pursuant to the Equity Transfer Agreement, Aoniu Mining has agreed to acquire, and Shenyang Toyo has agreed to sell, an aggregate of 100% equity interest in Fushun Shangma for a total consideration of RMB100 million. Upon completion of the acquisition on 31 December 2012, Fushun Shangma has became a wholly-owned subsidiary of the Company.

Shenyang Toyo is a subsidiary of Hanking Group, which is in turn owned as to 60.67% by Ms. Yang and 28.29% by Mr. Yang, each a non-executive Director and one of the Controlling Shareholders. As such, Shenyang Toyo is an associate of both Ms. Yang and Mr. Yang and is therefore a connected person of the Company.

The Company held an extraordinary general meeting on 21 September 2012 to approve the Equity Transfer Agreement and transactions contemplated thereunder. The controlling shareholders and their associates had abstained from voting on the resolutions for the approval of the Equity Transfer Agreement.

Please refer to item (2) "Substantial Acquisitions" of Section 2 "Business and Operation Review" under "Management Discussion and Analysis" in this report for details.

2. Acquisition of 70% equity interest in Northeastern Lion

Please refer to Paragraph (1) in item 16 "Major Subsequent Events" in this report.

(2) **Non-exempt Continuing Connected Transactions**

The Company was involved in several non-exempt continuing connected transactions during the year.

1. The Company had obtained the approval from the Hong Kong Stock Exchange when listed for the annual cap of transaction amount in respect of each of the following non-exempt continuing connected transactions, and the Company was exempted from compliance of the requirements on announcement and approval of independent shareholders.

   The annual cap and actual transaction amount of connected transactions in 2012 are listed as follows:

Items of Connected Transactions	Associate	Annual Cap for 2012	Actual Annual Transaction Amount for 2012
1. Procurement of steel balls	Dawei Casting	RMB11,400,000	RMB1,162,000
2. Benxi Iron Processing service	Benxi Iron Processing	RMB54,000,000	RMB28,468,000
3. Sales of iron ore concentrates	Fushun Hanking D.R.I.	RMB400,000,000	RMB237,840,000
	Dalian Huaren		RMB19,139,000
4. Transport services	Mingcheng Transportation or its affiliated companies	RMB27,400,000	RMB26,030,000
5. Lease of properties and properties management	Shengtai Property	RMB4,800,000	RMB4,800,000

A. Procurement of Steel Balls

Aoniu Mining and Fushun County Dawei Casting ("Dawei Casting") concluded an agreement in relation to the purchase of steel balls on 16 June 2011. According to the agreement, the Group continued to procure steel balls from Dawei Casting for a term of three years commencing from the listing date (i.e. 30 September 2011) of the Company. Dawei Casting is an entity fully owned by Yang Min, a Director of the Company and the entity, specializes in the production and sales of mining mechanical parts, iron metal artworks, cast pipe and cast-steel objects. Pursuant to Rule 14A.11 of the Listing Rules, Dawei Casting is a connected person of the Company. During the reporting period, the annual cap of the continuing connected transactions for 2012 was RMB11,400,000, and the actual transaction amount was RMB1,162,000.

B. Benxi Iron Processing Service

Benxi Hanking Mining Co., Ltd. ("Benxi Mining") and Benxi Hanking Iron Processing Co., Ltd. ("Benxi Iron Processing") signed an agreement for the provision of iron processing services on 16 June 2011. According to the agreement, Benxi Iron Processing will provide iron processing services and process the iron ore provided by Benxi Mining, and deliver the iron ore concentrates produced to Benxi Mining for a term of three years commencing from the listing date of the Company. Benxi Mining is an indirect wholly-owned subsidiary of the Company, specializing in iron ore exploration; Benxi Iron Processing is a wholly-owned subsidiary of Hanking Group, specializing in ore processing. According to Rule 14A.11 of the Listing Rules, both entities are the associates of the Company; during the reporting period, the annual cap of the continuing connected transactions for 2012 was RMB54,000,000, and its actual transaction amount was RMB28,468,000.

C. Sales of Iron Ore Concentrates

The Company concluded a procurement agreement with Fushun Hanking D.R.I. Co., Ltd. ("Fushun Hanking D.R.I.") on 16 September 2011. According to the agreement, the Company will, through our subsidiaries, including Aoniu Mining and Shenyang Toyo Steel Utility Co., Ltd. ("STSU"), provide iron ore concentrates to Fushun Hanking D.R.I. for a term of three years commencing from the listing date of (i.e. 30 September 2011) the Company. Fushun Hanking D.R.I. is a wholly-owned subsidiary of Hanking Group, specializing in producing direct reduced iron and pig iron and selling iron ore concentrates, iron ores and steel. According to Rule 14A.11 of the Listing Rules, Fushun Hanking D.R.I. is an associate of the Company. During the reporting period, the annual cap of the continuing connected transactions for 2012 was RMB400,000,000, and its actual transaction amount was RMB237,840,000.

Dalian Huaren Trade Co., Ltd. ("Dalian Huaren") acted as an agent of Fushun Hanking D.R.I. to purchase the iron ore concentrates from STSU and all purchased iron ore concentrates were delivered to Fushun Hanking D.R.I. and its actual transaction amount was RMB19,139,000.

D. Transportation Services

Aoniu Mining concluded an agreement on transportation of iron ores with Fushun Mingcheng Transportation Co., Ltd. ("Mingcheng Transportation") on 16 September 2011. According to the agreement, Aoniu Mining appointed Mingcheng Transportation or its affiliated companies to provide transportation services for a term of three years commencing from the listing date (i.e. 30 September 2011) of the Company. Mr. Yang Xinhuan, a nephew of Yang Min, a Director of the Company, owns 100% interest in Mingcheng Transportation, and 70% interest in Fushun Mingyang Transportation Co., Ltd. Both Mingcheng Transportation and Mingyang Transportation specialize in transportation of common goods and mass goods by road. According to Rule 14A.11 of the Listing Rules, both Mingcheng Transportation and Mingyang Transportation are associates of the Company. During the reporting period, the annual cap of the continuing connected transactions for 2012 was RMB27,400,000, and its actual transaction amount was RMB26,030,000.

E. Lease of Properties and Properties Management

Aoniu Mining, STSU and Shenyang Shengtai Property Management Co., Ltd. ("Shengtai Property") concluded a lease agreement on 16 September 2011. According to the agreement, Aoniu Mining and STSU continued to lease office premises located at No. 227, Qingnian Road, Shenhe District, Shenyang City, Liaoning Province, with a leased area of approximately 3,193.8 square meters from Shengtai Property, leased advertising sites in the same building, and engaged Shengtai Property to provide properties management service for a term of three years commencing from the listing date (i.e. 30 September 2011) of the Company. Given the fact that 96.69% of interest in Shengtai Property is indirectly held by the Controlling Shareholder of the Company, Shengtai Property is an associate of the Company in accordance with Rule 14A.11 of the Listing Rules. During the reporting period, the annual cap of the continuing connected transactions for 2012 is RMB4,800,000, and its actual transaction amount is RMB4,800,000.

The independent non-executive Directors of the Company have reviewed each of the above mentioned continuing connected transactions and confirmed that the transactions have been conducted:

A. in the ordinary course of business of the Company;

B. on normal commercial terms or, if there are no sufficient comparable transactions to determine whether they are on normal commercial terms, from the perspective of the Company, on terms no less favorable than the terms available to or from independent third parties;

C. in accordance with relevant agreements governing the relevant transactions on terms that are fair and reasonable and in the interests of the equity holders of the Company as a whole.

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the auditor of the Company to perform certain factual finding procedures in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Over Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has reported their conclusion to the Board stating that:

A. nothing has come to the auditor's attention that causes the auditors to believe that the disclosed continuing connected transactions have not been approved by the Board.

B. for transactions involving the provision of goods or services by the Group, nothing has come to the auditors' attention that causes the auditors to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company.

C. for transactions involving the provision of goods or services by the Group, nothing has come to the auditors' attention that causes the auditors to believe that the transactions were not, in all material respects, in accordance with relevant agreement governing these transactions.

D. with respect to the aggregate amount of each of the continuing connected transactions set out above, nothing has come to the auditor's attention that causes the auditors to believe that such continuing connected transactions have exceeded the maximum aggregate annual value disclosed in the section headed "Connected Transactions" in the Prospectus of the Company's global offering on 20 September 2011 in respect of each of the disclosed continuing connected transactions.

E. in respect of the above-mentioned connected transactions, the Directors also confirmed that the Company was in compliance with the disclosure requirements under Chapter 14A of the Listing Rules.

3. In respect of the following non-exempt continuing connected transactions being exempted from approval of independent shareholders, the Company has performed obligations of announcement on 20 December 2012.

In view of the strategy to further expand the existing business of the Group by engaging in nickel production and sales, and that the related technical personnel has extensive knowledge in nickel production, on 20 December 2012, the Group entered into the sale and purchase contract of Indonesian laterite nickel ore with Harvest Globe, pursuant to which the Group has agreed to purchase laterite nickel ore from Harvest Globe for a term of three years, commencing from 1 January 2013 to 31 December 2015. The annual cap was RMB65 million.

Harvest Globe is a non wholly-owned subsidiary of Denway Development and an indirectly non wholly-owned subsidiary of Northeastern Lion. After the completion of Northeastern Lion Acquisition, Northeastern Lion will become a non wholly-owned subsidiary of the Company, of which 70% equity interest will be held by the Company and the remaining 30% equity interest will be held by Evergreen Mining. Evergreen Mining is a connected person of the Company. Therefore, Northeastern Lion is a connected person of the Company under Rule 14A.11(5) of the Listing Rules and Harvest Globe is also a connected person of the Company under Rule 14A.11(6) of the Listing Rules. Accordingly, the transactions contemplated under the Sale and Purchase Contract of Laterite Nickel Ore constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of the sale and purchase contract of Indonesian laterite nickel ore is more than 0.1% but less than 5%, the continuing connected transactions are subject to the reporting and announcement requirements but are exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

22. Non-competition Agreement Compliance

The Company signed a non-competition agreement ("Non-Competition Agreement") with the Controlling Shareholders on 16 June 2011. Pursuant to the agreement, each Controlling Shareholder of the Company has undertaken to the Company (for itself and for the benefit of its subsidiaries) that with exception of the disclosed in the Prospectus of the Company, they would not and will procure their associates (exclusive of any members of the Group) that will not to carry out, and participate by himself/herself or along with or on behalf of any person, firm, company (inclusive of) business or activities or own equity in business or activity in relation to retained business, or acquire or hold, create, develop, operate or manage business or activities that compete against our Core Business, directly or indirectly, during the restricted time limit stated below. We would be granted by the Controlling Shareholder of the Company an option and the pre-emptive right to acquire certain interests in certain entities retained by the Controlling Shareholder after the reorganization.

Pursuant to the agreement, the independent non-executive Directors of the Company is responsible for reviewing and considering whether exercising such option and pre-emptive right, as well as entitled to conduct annual review of implementation of the agreement on behalf of the Company. During the year, each Controlling Shareholder of the Company has made annual confirmation of compliance of the Non-Competition Agreement, and the independent non-executive Directors of the Company have also reviewed the implementation of the Non-Competition Agreement, and confirmed that the Controlling Shareholders have fully abided by the agreement without any breach of the Non-Competition Agreement.

23. Retirement and Employees' Benefit Plan

Detailed information on the retirement and employees' benefit plan of the Company is provided in note 38 to financial statements.

24. Compliance with Code on Corporate Governance

As a listed company on the main board of the Hong Kong Stock Exchange, the Company consistently commits to maintain high level of corporate governance. During the period between 1 January 2012 to 31 March 2012, the Company has fully complied with code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules, and has complied with most of the best practices as suggested therein; during the period from 1 April 2012 to 31 December 2012, the Company has fully complied with the code provisions of the amended Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules, and has complied with most of the best practices as suggested therein. Please refer to Corporate Governance Report in this annual report for details.

25. Public Float

In accordance with information available to the Company, and to the knowledge of the Directors, the public hold not less than 25% of shares issued by the Company as at the Latest Practicable Date prior to issue of this annual report, which is in compliance with the requirement of the Listing Rules.

26. Significant Legal Proceedings

For the year ended 31 December 2012, the Group has not been involved in any significant legal proceedings or arbitration. To the knowledge of the Directors, there are no significant legal proceedings or claim pending or threatened.

27. Audit Committee

The audit committee under the Board has reviewed the Company's annual results for 2012, and the financial statements for the year ended 31 December 2012.

28. Auditor

The consolidated financial statements stated in this annual report has been audited by Deloitte Touche Tohmatsu. A resolution for re-appointing Deloitte Touche Tohmatsu as auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

29. Financial Highlights

The operating performance, assets and liability highlights of the Group for the last five fiscal years are stated on pages 4 to 5 of this annual report.

30. Significant Contracts

Save as disclosed under the heading of the "Connected Transaction" in this report, neither the Company nor any one of its subsidiaries has signed a significant contract with the Controlling Shareholder or any one of its subsidiaries other than the Group, and no significant contract for delivery of service has been signed between the Group and the Controlling Shareholder or any one of its subsidiaries other than the Group.

31. Financial Assistance and Guarantee to Affiliated Company by the Company

For the year ended 31 December 2012, the Company has not granted financial assistance and guarantee to its affiliated company.

32. Loan to a Given Entity

For the year ended 31 December 2012, the Group has granted a loan of RMB15,300 thousand to a given entity. Please refer to note 22 to the consolidated financial statements for details.

By order of the Board
Ms. Yang Min
Chairlady of the Board

19 March 2013

CORPORATE GOVERNANCE REPORT

The Board and the Company is committed to maintain a high standard of corporate governance practices and procedures. The Company believes that good corporate governance provides a framework that is essential for ensuring effective management, business growth and shareholder value.

During the period from 1 January 2012 to 31 March 2012, the Company has fully complied with the code provisions of the Code of Corporate Governance Practice set out in the Appendix 14 to the Listing Rules, and essentially complied with the recommended best practices of the code; during the period from 1 April 2012 to 31 December 2012, the Company has fully complied with the amended code provisions of the Code of Corporate Governance and Corporate Governance Report (the "Code") set out in the Appendix 14 to the Listing Rules, and essentially complied with the recommended best practices of the Code.

The detailed discussions of the Code provisions adopted and complied by the Company during the period are set out below.

1. Board Composition and Practices

(1) The Board

The Board is collectively responsible for leading and overseeing the Group's business, account for all the shareholders and is in charge of operation. The Board is mainly responsible for formulating the business strategies, objectives, policies and plans of the Company, and monitoring the execution of the Company's strategies. It is also responsible for overseeing the operational and financial performance of the Company and establishing appropriate risk control policies and procedures in order to ensure that the strategic objectives of the Company are materialized. In addition, the Board is also responsible for improving the corporate governance structure and enhancing communications with Shareholders. The management team headed by the Chief Executive Officer is responsible for the Board, executing the strategies and plans formulated by the Board, and decision-making for day-to-day operation of the Company. The management reports monthly to the Board on the operating and financial performance of the Company.

For the period from 1 January 2012 to 29 January 2012, the Board consists of eleven members as follows:

Non-executive Directors	**Executive Directors**	**Independent non-executive Directors**
Ms. Yang Min *(chairlady)*	Mr. Pan Guocheng *(chief executive officer)*	Mr. Wang Ping
Mr. Yang Jiye *(vice chairman)*	Mr. Zheng Xuezhi	Mr. Johnson Chi-King Fu
Mr. Mao Guosheng	Mr. Lu Zengxiang	Mr. Chen Yuchuan
	Mr. Huang Jinfu	
	Mr. Xia Zhuo	

During the period from 30 January 2012 to 31 December 2012, the Board consists of twelve members as follows:

Non-executive Directors	**Executive Directors**	**Independent non-executive Directors**
Ms. Yang Min *(chairlady)*	Mr. Pan Guocheng *(chief executive officer)*	Mr. Wang Ping
Mr. Yang Jiye *(vice chairman)*	Mr. Zheng Xuezhi	Mr. Johnson Chi-King Fu
Mr. Kenneth Jue Lee	Mr. Xia Zhuo	Mr. Chen Yuchuan
Mr. Lan Fusheng	Mr. Qiu Yumin	Mr. Wang Anjian

As of the date of this report, the Company has four independent non-executive Directors in total, representing one-third of the total number of Directors, which is complied with the requirements of the Listing Rules. As a result, there is sufficient independence on the Board, such that the independent non-executive Directors can effectively exercise independent judgment. Mr. Wang Ping has over 16 years' experience in corporate finance, audit, accounting and taxation; Mr. Johnson Chi-King Fu has more than 30 years' experience in financial industry; Mr. Chen Yuchuan has obtained more than 52 years of experience in the area of mining and geology; Mr. Wang Anjian has extensive experience in research of resource strategy.

Other Directors have extensive experience in mineral exploration, mining, operation and management, financing, and accounting, programme development and investment. Among four non-executive Directors, Ms. Yang Min and Mr. Yang Jiye are founders of the Company, both of them have rich experience in mining and corporate management; Mr. Kenneth Jue Lee has more than 15 years of experience across private equity investment, corporate finance, and business development in China; Mr. Lan Fusheng has over 30 years' experience in geological exploration and investment. Among the four executive Directors, the Chief Executive Officer of the Company, Mr. Pan Guocheng has obtained more than 22 years' experience in operation and management of mining area; Mr. Zheng Xuezhi (the Chief Financial Officer of the Company) has obtained more than 11 years of experience in fields of financing, auditing, accounting and tax; Mr. Xia Zhuo has obtained more than 16 years of experience in the mining industry; Mr. Qiu Yumin has nearly 30 years of experience in exploration and business development. The experience and knowledge of the Board is well balanced, with international project development background, industry management experience, geological survey experience, international investment experience, the operating experience of listed companies and global resource strategic view, which forms a firm foundation for the future development of the Company.

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

The current Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the new requirement of the revised code on continuous professional development during the year ended 31 December 2012:

	Training Scope		
Directors	**Corporate Governance**	**Listing Rules**	**Business/ management**
Non-executive Directors			
Ms. Yang Min	✓	✓	✓
Mr. Yang Jiye	✓	✓	✓
Mr. Kenneth Jue Lee	✓	✓	✓
Mr. Lan Fusheng	✓	✓	✓
Executive Directors			
Mr. Pan Guocheng	✓	✓	✓
Mr. Zheng Xuezhi	✓	✓	✓
Mr. Xia Zhuo	✓	✓	✓
Mr. Qiu Yumin	✓	✓	✓
Independent non-executive Directors			
Mr. Wang Ping	✓	✓	✓
Mr. Johnson Chi-King Fu	✓	✓	✓
Mr. Chen Yuchuan	✓	✓	✓
Mr. Wang Anjian	✓	✓	✓

In addition, in order to gain latest information of their specialized filed, Directors attended seminars related with the industry prospectively, for example, Mr. Kenneth Jue Lee, Mr. Pan Guocheng and Mr. Lan Fusheng attended 2012 International Mining Conference of China (2012中國國際礦業大會), Meeting of the PDAC (加拿大勘探與開發者協會(PDAC)大會), the Sixth CDMC of Asian (第六屆亞州礦業合作論壇), the Third Global Conference on Natural Resources and Mineral held by HSBC (匯豐銀行第三屆全球自然資源及礦產大會), Mr. Wang Ping participated in Special Training for Hong Kong Listed Company organized by Hong Kong Stock Exchange and the Mining Seminar promoted by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, and Mr. Zheng Xuezhi attended Senior Seminar for Enterprise Regulation of Listing Companies and the twenty-seventh Lecture of Intensified and Continuous Professional Development of Joint members held by The Hong Kong Institute of Chartered Secretaries.

Mr. Xia Zhuo, the joint company secretary, also constantly enhanced his professional skills through participating in trainings, such as the Senior Seminar for Enterprise Regulation of Listing Companies and the twenty-seventh Lecture of Intensified and Continuous Professional Development of Joint members held by The Hong Kong Institute of Chartered Secretaries, internal training and self-study.

Details of the Directors' biographies will be disclosed in the "Biographies of Directors and Senior Management" of this annual report. Mr. Yang Jiye is the son of Ms. Yang Min. Save as the above, none of the members of the Board has any relationship with other members.

The Board is the highest authority of the Group on corporate governance, its main responsibilities include:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Group's policies and practices in compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors; and

(e) to review the Group's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

The Board has convened six meetings during the year of 2012. During the reporting period, the details of Directors' attendance of the Board meeting, special committee meeting and general meeting are as follows:

Times of attendance/times of meetings held

		Specialized Committees under the Board			
Name of Directors	**Board of Directors**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**General Meeting**
Non-executive Directors					
Yang Min *(chairlady)*	6/6	N/A	N/A	2/2	2/2
Yang Jiye *(vice chairman)*	6/6	N/A	1/1	N/A	2/2
Lan Fusheng	5/5	N/A	N/A	N/A	2/2
Kenneth Jue Lee	5/5	N/A	N/A	N/A	2/2
Executive Directors					
Pan Guocheng *(chief executive officer)*	6/6	N/A	N/A	N/A	2/2
Zheng Xuezhi	6/6	N/A	N/A	N/A	2/2
Xia Zhuo	6/6	N/A	N/A	N/A	2/2
Qiu Yumin	5/5	N/A	N/A	N/A	2/2

CORPORATE GOVERNANCE REPORT *(CONTINUED)*

Times of attendance/times of meetings held

Name of Directors	Board of Directors	Specialized Committees under the Board: Audit Committee	Remuneration Committee	Nomination Committee	General Meeting
Independent non-executive Directors					
Wang Ping	6/6	2/2	1/1	N/A	2/2
Johnson Chi-King Fu	6/6	2/2	N/A	2/2	2/2
Chen Yuchuan	6/6	N/A	1/1	2/2	2/2
Wang Anjian	5/5	2/2	N/A	N/A	2/2

Among other things, the meetings were held in way of Board meeting instead of written resolution to approve these events in case of significant interest conflict between substantial shareholders or Directors in the matters to be considered by the Board. All Independent non-executive Directors who have no significant interest in transactions have attended the Board meetings.

Liability Insurance

The Company has purchased liability insurance for its Directors and senior management for a term of one year.

The Tenure, Independence and Performance of the Independent Non-executive Directors

The independent non-executive Directors of the Group consist of a fellow certified public accountant with accounting and financial management expertise, an expert with managerial experience in financial industry and two senior experts in mineral and geological field.

The principal particulars of the service agreements of non-executive Directors are (1) for a term of three years commencing from the Listing Date (Yang Min, Yang Jiye, Wang Ping, Johnson Chi-King Fu, Chen Yuchuan) or for a term of three years commencing from the date of appointment (Lan Fusheng, Kenneth Jue Lee, Wang Anjian), and (2) subject to termination in accordance with their respective terms.

The appointment of independent non-executive Directors strictly adheres to the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules. The Company has received the written confirmation of their independence of 2012 from each of the independent non-executive Directors and considers them to be independent of the management and free of any relationship that could materially interfere with the exercise of their independent judgment.

During the reporting period, the independent non-executive Directors actively took part in the meetings held by the Board and specialized committees, during which many independent professional comments and suggestions were raised in respect of the business development, significant decisions, risk management, internal control of the Company. On 21 September 2012, the independent non-executive Directors and Chairlady of the Board made a thematic discussion about the non-executive Directors' comments on the operation in 2012 and the recommendations and request in regard to the operation in 2013.

During the reporting period, the independent non-executive Directors had no objections to the resolutions made by the Board and specialized committees of the Company.

Securities Transaction by Directors

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 the Directors' dealings in the Company's securities. Specific enquiry has been made to all the Directors and all Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2012.

The Chairman of the Board and the Chief Executive Officer

In respect of the separate roles of the chairman and Chief Executive Officer of the Company, Ms. Yang Min, non-executive Director, is the chairlady of the Board and responsible for the management of effective operation of the Board, ensuring that all major and appropriate issues are discussed by the Board on a timely basis and in a constructive manner. Mr. Pan Guocheng is the Chief Executive Officer of the Company, responsible for daily operational activities of the Group and responsible to the Board for the overall operations of the Group. The management shall provide members of the Board and specialized committees under the Board with appropriate and sufficient information in a timely manner so as to update them with the latest developments of the Company and facilitate the discharge of duties better.

(2) **Specialized Committees under the Board**

The Company has sufficiently promulgated the terms of reference of the four committees under the Board (namely Audit Committee, Nomination Committee, Remuneration Committee and Health, Safety, Environmental Protection and Community Committee), so that they can properly perform their duties and functions and with the requirement of reporting their decisions or recommendations to the Board.

During the reporting period, the performance of duties of Audit Committee, Remuneration Committee, Nomination Committee and Health, Safety, Environmental Protection and Community Committee of the Company are as follows:

(A) Audit Committee

For the period ended 29 January 2012, members of the Audit Committee of the Company are as follows:

Independent non-executive Directors

Wang Ping *(chairman)*
Johnson Chi-King Fu

Non-executive Directors

Mao Guosheng

As at 30 January 2012, Mr. Mao Guosheng resigned his position as Director. According to Rule 6 of the Proceedings Rules of the Audit Committee, he lost his qualification of the members of the Audit Committee automatically. The Board determined to elect Mr. Wang Anjian as the member of the Audit Committee on the same date. With this, all members of the Audit Committee of the Board are composed of Independent non-executive Directors. For the period from 30 January 2012 to 31 December 2012, the members of the Audit Committee of the Company are as follows:

Independent non-executive Directors
Wang Ping *(chairman)*
Johnson Chi-King Fu
Wang Anjian

The Audit Committee of the Company published the Terms of Reference and Operating Model of the Audit Committee on the websites of the Company and the Hong Kong Stock Exchange on 30 March 2012. The Company held two meetings in total during the year of 2012, and details are as follows:

The meeting of Audit Committee held on 15 March 2012 reviewed and approved the drafts of financial statements, annual results announcement and annual report of 2011 of the Group; considered and made recommendation to the Board about the audit fee for 2011 and re-appointment of the auditor in 2012 and made recommendations to the Board to determine the auditor's remuneration; reviewed the audit committee report submitted by the auditor; reviewed the internal control report of the Company, by solving problems discovered from internal audit, reviewed and enhanced the role and implementation of internal control system and improved the internal control system as a whole; reviewed the auditor's review reports for 2011 and the audit plan for 2012 of the internal audit department of the Company, oversaw the internal audit system and its implementation to ensure that the internal audit function is adequately resourced. It also reviewed the Management Letter submitted by external auditors and procure the management to rectify the issues raised.

The meeting of Audit Committee held on 20 August 2012 reviewed and approved the draft of the audited interim consolidated financial statements of 2012, interim results announcement and interim report; reviewed and discussed the report submitted to the Audit Committee by the auditor of the Company ("Auditor") in respect of the review about the interim results for the six months ended 30 June 2012 and other matters that need to pay attention to that was raised by the Auditor and agreed to submit the foregoing to the Board for consideration.

(B) Remuneration Committee

For the period ended 14 March 2012, members of the Remuneration Committee of the Company are as follows:

Non-executive Director

Mr. Yang Jiye *(chairman)*

Independent non-executive Directors

Mr. Wang Ping
Mr. Chen Yuchuan

According to the requirements prescribed in the newly revised Listing Rules, the chairman of the Remuneration Committee shall be an independent non-executive director. As such, the Board of the Company elected Wang Ping to be the chairman of the Remuneration Committee on 15 March 2012. For the period from 15 March 2012 to 31 December 2012, the members of the Remuneration Committee of the Company are as follows:

Independent non-executive Directors

Mr. Wang Ping *(chairman)*
Mr. Chen Yuchuan

Non-executive Director

Mr. Yang Jiye

The Company published Terms of Reference and Operating Model of the Remuneration Committee on its the websites of the Company and the Hong Kong Stock Exchange on 30 March 2012. In 2012, the Remuneration Committee further perfected the remuneration packages of the Directors and senior management and the review system of the Company and made recommendations to the Board to determine the remuneration of the Directors and senior management.

During the year of 2012, the remuneration committee of the Company held one meeting, reviewing and approving the Group's remuneration policies and structure of the Directors and remuneration policies and structure of the Senior Management for the year ended 31 December 2011 and discussing the Group's remuneration policies and structure of the Directors and Senior Management for the year of 2012.

(C) Nomination Committee

The existing members of the Nomination Committee of the Company are as follows:

Non-executive Directors
Ms. Yang Min *(Chairlady)*

Independent non-executive Director
Mr. Johnson Chi-King Fu
Mr. Chen Yuchuan

The Nomination Committee of the Company formulated the Terms of Reference and Operating Model of the Nomination Committee on 30 March 2012 and published on the websites of the Company and the Hong Kong Stock Exchange. It clarified the terms of reference and reviewed the policies and procedures for the nomination and the relevant criteria for the selection and recommendation of Directors. As at 31 December 2012, the Nomination Committee held two meetings in total, details of which are as follows:

On 30 January 2012, the Nomination Committee held the first meeting of 2012, at which the members of the committee were all present, and Mr. Qiu Yumin was nominated to be the executive Director, Mr. Kenneth Jue Lee and Mr. Lan Fusheng as the non-executive Directors and Mr. Wang Anjian as an independent non-executive Director.

On 15 March 2012, the Nomination Committee held the second meeting for the year of 2012, at which the members of the committee were all present and Ms. Yang Min, Mr. Yang Jiye, Mr. Kenneth Jue Lee and Mr. Lan Fusheng were nominated to be re-elected as the non-executive Directors, Mr. Pan Guocheng, Mr. Zheng Xuezhi, Mr. Xia Zhuo and Mr. Qiu Yumin as the executive Directors. The independence of Mr. Wang Ping, Mr. Johnson Chi-King Fu, Mr. Chen Yuchuan and Mr. Wang Anjian was assessed and thereby the resolution of their re-election to be the Independent non-executive Directors of the Company was passed. At the meeting, the qualification of experience, knowledge and skills of the Directors to the development strategy of the Company and the sufficiency of time and efforts contributed by them were also discussed.

(D) Health, Safety, Environmental Protection and Community Committee

With the aim to improve the management standard of environmental protection and safety of the Company, and to ensure that the enterprise develops in harmony with the community, and the enterprise develops healthily along with its employees, on 19 March 2013, the Board established the Health, Safety, Environmental Protection and Community Committee. The committee's main responsibilities include, making recommendations to the Board on significant decisions and issues concerning the safety, environmental protection, employees' health and community relations; establishing long term and annual plans for safety and environmental protection; monitoring the implementation of the Company's safe and environmental protection plans; and making enquiries on the material environment incidents and corresponding responsibilities upon the production and operation, property and asset, employees or other facilities of the Company, as well as reviewing and supervising handling those events.

Members of Health, Safety, Environmental Protection and Community Committee of the Company are as follows:

Executive Director
Mr. Pan Guocheng *(Chairman)*

Non-executive Director
Mr. Lan Fusheng

Independent non-executive Director
Mr. Wang Anjian

(3) **Remuneration of Auditors**

The Group approved the resolution for the reappointment of Deloitte Touche Tohmatsu as the auditor of the Company for 2012 and authorizing the Board and the Audit Committee to determine its remuneration on annual general meeting at 20 May 2011, and continued to appoint Deloitte Touche Tohmatsu as the auditor of the Company for the year of 2012 with a term of one year, to the date of the 2013 annual general meeting. As at 31 December 2012, the details of the audit and non-audit service provided by the external auditor are as follows:

Audit Service
The total fee charged for providing the Group with the semi-annual audit for the financial statements as of 30 June 2012 and annual audit for the financial statements as of 31 December 2012 was RMB2,000,000 and the audit service fee for providing the Group with the project to acquire the 100% equity interest of Fushun Shangma was RMB90,000.

Non-audit Service
The total fee charged for providing the Group with advisory services on tax affairs was RMB165,113 (including tax).

(4) **Directors and Auditor's Responsibility for Preparation of the Financial Statements**

The Directors acknowledged their responsibilities for preparing the financial statements for the year ended 31 December 2012, which gave a true and fair view of the state of affairs of the Group and of the results and cash flows for that year. The Company allocated sufficient resources to prepare the audited accounts. Senior management was required to present and explain the financial reporting and matters that materially affected or may have material impact on the financial performance and operations of the Company to the Audit Committee and the Board and responded to the queries and concerns raised by the audit committee and the Board to their trust. The consolidated financial statements have been prepared in accordance with IFRS. In addition, the financial statements included appropriate disclosure made in accordance with the Listing Rules and the Companies Ordinance. The preparing responsibility of the external auditors of the Company on the financial statements of the Group were set out in the independent auditors' report of this annual report.

(5) **Internal Control**

The Board has overall responsibility for the system of internal controls of the Group, including setting management structure and making appropriate authorization, identifying proper accounting policy and providing reliable financial information for internal and external use. The measures above were designed to provide reasonable (but not absolute) assurance against material misstatement or loss, and to manage (but not fully eliminate) the mistakes of the Group's operational systems and the risks of failure to achieve the Group's business objectives.

The Group has established an internal control system and formulated regulations on the segregation of duties of the Board and senior management, according to which the senior management is responsible for the Board and executes the resolution proposed by the Board and is entitled to manage and oversee the Group's operations.

The management of the Company provides the members of the Board with the latest information of the Group monthly, which sets out the performance of the Company, the notarization of the financial position and prospects and well-understood assessment.

An Internal Control Application Manual was prepared by the Company to regulate control programs, mainly including transaction authorization control, responsibility dividing control, documents and records control, asset contact and recording control, independent audit control and electronic information system control.

The Group has established the Information Disclosure Management System and the Administrative Rules Governing Related Party Transactions, which stipulate the relevant procedures for processing the inside information. Through the annual report and the interim report, the Board can regularly evaluate the effectiveness of internal control.

The Group has established a specialized internal audit organ, and formulated relevant mechanism, including the internal reporting system, setting up proper internal supervising procedures to ensure the effectiveness of internal supervision and extending its application to all the Group's holding subsidiaries. Annual audit report and plan of the audit department were approved by the Audit Committee.

The Company established an independent accounting organization to set out the duties and rights related to finance management, accounting and auditing, and assigned with relevant staff to ensure the smoothness of finance and accounting work, while the functions of approval, implementation and recording function and formulation of rules relating to every aspect, so as to be the guarantee fair execution.

The Board believes that the existing corporate internal control system has basically covered the operating conditions of the corporation and the internal control system the Company has adopted for the year ended 31 December 2012 was reasonable and effective.

(6) **Communication Policy with Shareholders**

The Company attached great importance to the communication with shareholders and promoted understanding and communication with shareholders through various channels of general meetings, results announcement conferences, road show activities, receiving guests and telephone counseling. In 2012, the Company organized various road show activities and analysts meetings.

(A) The rights of Shareholders

The Articles of Association provides the rights and obligations of all shareholders.

Shareholders are encouraged to attend the annual general meeting/extraordinary general meeting to ensure the high level of accountability and to stay apprised of the Group's strategy and goals. The notice of convening annual general meeting shall be despatched to each shareholder at least 21 clear days and not less than 20 business days before the commencement of the annual general meeting, any extraordinary general meeting proposed to consider approving special resolutions shall make notice not less than twenty-one (21) clear days and not less than ten (10) clear business days before its commencement. All other extraordinary general meeting can commence with prior notice of at least 14 clear days and not less than 10 clear business days. Provided that so is approved by the following persons and permitted by designated stock exchange and statutory provisions, the meeting can be convened with a notice of a shorter period: (a) as for the convening of annual general meeting, all members entitled to attend and vote at the meeting, and (b) as for any other meetings, the majority, namely the shares held together are not less than 95% of the nominal value of the issued shares given that right, of members entitled to attend and vote at the meetings.

There are no provisions allowing shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law (2012 Revision). However, pursuant to the Articles of Association, member or members holding not less than one-tenth of paid-up capital of the Company entitled to vote at the meeting on the date of submitting requirements, are entitled to give written requirements to the Board or the Company Secretary to request the Board to convene extraordinary general meeting at any time and to handle the matters set out in the above requirements; the above meeting shall commence within two (2) months after the satisfying the relevant requirements, and please send the requirements to the principal place of business in Hong Kong of the Company, 8th Floor, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong and for the attention of the Company Secretary. If the Board had not convened the meeting within 21 days after the requirements are satisfied, the requesting persons can convene the meeting by which all the reasonable expenses of petitioners so caused should be compensated by the Company.

The chairman of the Board as well as the chairmen of all the committees of the Board, or in their absence, other members of the respective committees, are available to answer any enquiries put forward at the annual general meeting. The external auditors should also attend the meeting, to assist the directors in answering enquiries of shareholders.

According to the Listing Rules, any voting of the shareholders at the general meeting must be taken by poll. The result of the voting is considered as the resolution of the meeting.

(B) Shareholders' enquiries

Any enquiries relating to your shareholding, for example, transfers of shares, change of address, lost share certificates or dividend cheques, shall be sent or made to Computershare Hong Kong Investor Services Limited, the Company's Share Registrars in Hong Kong:

Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong
Tel: (852) 2862-8628
Fax: (852) 2865-0990, (852)2529-6087
Website: www.computershare.com.hk

(C) Investor Relations and Communication

The Company fulfills a proactive policy for promoting investor relations and communications by maintaining regular dialog and fair information disclosure with institutional investors, fund managers, analysts and medias. The management meets with the investors regularly and also attends several investor meetings. Many analysts will also follow up with the Group's situation and publish regular report related to the Group.

The Company promotes the effective communication with shareholders, investors and other rights persons and duly issues company consultancy and other related financial information at the website of Hong Kong Stock Exchange (http://www.hkexnews.hk) and the Company's website (www.hankingmining.com) including detailed information related to the operations performance and momenta disclosed by annual report, interim report, news release and notice.

(7) General Meeting

For the year 2012, the Company held one annual general meeting, and one extraordinary general meeting. All Directors presented at both general meetings and seven resolutions are reviewed and passed, details of which is set out as followings:

Following resolutions were reviewed and passed on the annual general meeting of the year of 2011 held by the Company on 21 May 2012:

1. Review and approve the audited Consolidated Financial Statements and the Reports of Directors and the Auditor for the year ended 31 December 2011;

2. Approve the payment of the final dividend for the year ended 31 December 2011;

3. Re-elect the retiring directors and authorize the Board to determine their remuneration;

4. Re-appoint Deloitte Touche Tohmatsu as the auditor of the Company for 2012 and to authorize the board of directors and the audit committee to determine its remuneration; and

5. Authorize general mandate to directors to allot and issue shares; authorize general mandate to the board of directors to repurchase shares of the Company and resolution to extend the authorization of general mandate to the board of directors to issue shares, to allow the allotment, issuance and dealing with additional shares to be issued as a result of share repurchase.

Following resolutions were proposed and passed by the Company at the first extraordinary general meeting of 2012 held on 21 September 2012:

1. To approve, confirm and ratify the 100% Equity Transfer Agreement of Fushun Shangma and the transactions contemplated thereunder; and

2. To authorize any Director to do all such acts and things and to sign and execute all such documents and to take all such steps which, in the opinion of the Directors, may be necessary, desirable or expedient to give effect to the terms of, or the transactions contemplated by the Equity Transfer Agreement and to agree to such variation, amendment or waiver or matter relating thereto as are, in the opinion of the Directors, not of a material nature and in the interests of the Company and its shareholders as a whole.

All resolutions above were duly passed by way of poll in shareholders' meetings, and determinations of the meetings were published on the websites of the Hong Kong Stock Exchange and the Company.

(8) Company Secretary

The Company appointed Ms. Mok Ming Wai (a director of KCS Hong Kong Limited) as one of its joint company secretaries, whose primary corporate contact person at the Company is Mr. Xia Zhuo, the executive Director and joint company secretary of the Company.

In order to comply with the Rule 3.29 of the Listing Rules, both of the joint company secretaries Mr. Xia Zhuo and Ms. Mok Ming Wai has participated in no less than 15 hours' professional training for the year ended 31 December 2012.

(9) Articles of Association

There is no material changes in the Articles of Association as at the end of 2012.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

1. Composition of Directors

As at the date of this report, the Board consists of four executive Directors, four non-executive Directors and four independent non-executive Directors. As at the date of this report, the following table sets forth certain information in respect of Directors:

Name	Age	Position/Title in the Group	Date of Appointment	Roles and Responsibilities
Ms. Yang Min	58	Non-executive Director and Chairlady of the Board	25 February 2011	She is responsible for the overall business strategies of the Group, but not participating in the day-to-day management of the business operations of the Group
Mr. Yang Jiye	35	Non-executive Director and Vice Chairman of the Board	25 February 2011	He is responsible for providing strategic advice to the Group, but not participating in the day-to– day management of the business operations of the Group
Mr. Pan Guocheng	56	Executive Director and Chief Executive Officer and President	25 February 2011	He is responsible for general management and daily operation of the Group
Mr. Zheng Xuezhi	43	Executive Director and Chief Financial Officer	25 February 2011	He is responsible for financial management of the Group
Mr. Xia Zhuo	47	Executive Director and Joint Company Secretary	25 February 2011	He is responsible for the daily work of the Board and the matters related to investors relations
Mr. Qiu Yumin	50	Executive Director (the president of Hanking Australia Pty Ltd. (罕王澳大利亞公司), a wholly-owned subsidiary of the Company, up to the date of this report)	30 January 2012	He is responsible for exploration and development of the Group
Mr. Wang Ping	42	Independent non-executive Director	25 February 2011	N/A

Name	Age	Position/Title in the Group	Date of Appointment	Roles and Responsibilities
Mr. Johnson Chi-King Fu	58	Independent non-executive Director	25 February 2011	N/A
Mr. Chen Yuchuan	78	Independent non-executive Director	16 September 2011	N/A
Mr. Kenneth Jue Lee	45	Non-executive Director	30 January 2012	N/A
Mr. Lan Fusheng	48	Non-executive Director	30 January 2012	N/A
Mr. Wang Anjian	59	Independent non-executive Director	30 January 2012	N/A

2. Biography of Non-executive Directors

Ms. Yang Min, aged 58, is a non-executive Director and the chairlady of the Board. Ms. Yang is the founder of the Group. She is responsible for the overall business strategies of the Group. Since August 2008, she has served as the chairlady of the board of Aoniu Mining and as director of Xingzhou Mining, Benxi Mining, Maogong Mining. In addition, Ms. Yang is currently serving as the chairlady of the board of directors of Hanking Group. Ms. Yang has obtained more than 15 years of experience in the mining industry. Ms. Yang is currently holding a number of positions with various organizations. She serves as a representative of the twelfth National People's Congress (第十二屆全國人大代表), vice-president of the ninth and tenth executive committee of Liaoning Federation of Industry and Commerce (遼寧省工商聯第九屆、第十屆執行委員會) and the president of the presidium of China Mining Association (中國礦業聯合會主席團). Over the past three years, she has not been a director of any other listed companies. Ms. Yang is the mother of Mr. Yang Jiye.

Mr. Yang Jiye, aged 35, is a non-executive Director and vice chairman of the Board as well as the vice-chairman of the board of Aoniu Mining. He is currently the vice-chairman of the board of directors of Hanking Group and the chairman of the board of directors of Liaoning Hanking Investment Co., Ltd. (遼寧罕王投資有限公司). With his previous and current positions in the Group, he has more than 10 years of experience in the corporate governance and management. Over the past three years, he has not been a director of any other listed companies. Mr. Yang Jiye is the son of Ms. Yang Min.

Mr. Kenneth Jue Lee, aged 45, has been a non-executive Director of the Company since 30 January 2012. He is a partner at SAIF Partners, one of the largest and most successful growth venture capital funds focused on China. SAIF Partners IV L.P. beneficially holds 93,107,000 shares of the Company, representing approximately 5.1% of the issued capital of the Company. Currently, Mr. Lee is also a non-executive director on the boards of Sinovac Biotech Ltd. (NASDAQ-GM: SVA), Yayi International Inc. (OTC: YYIN) and China Polymetallic Mining Limited (SEHK: 02133). He has more than 15 years of experience across private equity investment, corporate finance and business development in China.

Mr. Lan Fusheng, aged 48, is a non-executive Director. He has been an executive director of Zijin Mining Group Co., Ltd. (SEHK: 2899; SSE: 601899) since September 2000, responsible for investment and merger and acquisition. He is also the chairman of Gold Mountains (Hong Kong) International Mining Co., Ltd. As at the date of this report, Gold Mountains (Hong Kong) International Mining Co., Ltd beneficially holds 62,071,000 shares of the Company, representing approximately 3.4% of the issued share capital of the Company. Mr. Lan has more than 30 years of experience in geological exploration and investment. Save as disclosed above, over the past three years, he has not been a director of any other listed companies.

3. Biography of Executive Directors

Mr. Pan Guocheng, aged 56, is an executive Director. He is also the chief executive officer and president of the Company and is responsible for the general management and daily operation of the Group. Mr. Pan Guocheng joined Hanking Group in 2005. Currently, he is the director and president of Aoniu Mining. Mr. Pan Guocheng held positions (including management positions) with various organizations, including director of technical development department at AngloGold North America, president of GeoSight, Inc. and China general manager of Gold Fields (BVI) Ltd.. Being in his previous and current positions in the Group, Mr. Pan Guocheng has obtained more than 22 years experience in operation management and project development from mining companies. He has published papers and reports in the areas of mineral exploration, mining engineering, mining reserve estimate, economic evaluation and statistic mining. Over the past three years, he has not been a director of any other listed companies.

Mr. Zheng Xuezhi, aged 43, is an executive Director. He also serves as the chief financial officer of the Company and is responsible for financial management of the Group. Currently he is also a director of Liaoning Hanking Investment Co., Ltd. and Aoniu Mining. Being in his previous and current positions in the Group, Mr. Zheng Xuezhi has obtained more than 11 years of experience in financing, accounting, auditing, and taxation. Mr. Zheng Xuezhi graduated from Northeast University (東北大學) in January 2012 with Executive Master degree of Business Administration. He is a certified public accountant and a certified public valuer in the PRC. Over the past three years, he has not been a director of any other listed companies.

Mr. Xia Zhuo, aged 47, is an executive Director. He also serves as the joint company secretary of the Company and is responsible for daily administrative matters of the Group. He has been serving as the director and board secretary of Aoniu Mining since August 2008. Currently, he also serves as the director of Liaoning Hanking Investment Co., Ltd. Mr. Xia Zhuo has obtained more than 16 years of experience in the mining industry with a master degree. Over the past three years, he has not been a director of any other listed companies.

Mr. Qiu Yumin, aged 50, is an executive Director. He also serves as the vice president of the Company in 2012 and was appointed as the president of Hanking Australia Pty Ltd. (罕王澳大利亞公司), a wholly-owned subsidiary of the Company since February 2013. He is also a director of Aoniu Mining. Mr. Qiu is responsible for the overall business management of Hanking Australia Pty Ltd. (罕王澳大利亞公司) and he joined the Group in 2011, responsible for the exploration business and development of the Group. Mr. Qiu is a member of Australian Institute of Geoscientists and has published geological papers in international academic periodical of Australia, China, France, Japan and the United State. Mr. Qiu has nearly 30 years of experience in exploration and business development, including being a member of senior management in international mining companies for over 10 years. Currently, save for the directorship in the Company, he is also an executive director of Hanking Australia Pty Ltd., the subsidiary of the Company, and a non executive director of Goodrich Resources Ltd. (ASX: GRX) in Australia.

4. Biography of Independent Non-executive Directors

Mr. Wang Ping, aged 42, is an independent non-executive Director of the Company. Currently, he is the chief financial officer of China Vehicle Components Technology Holdings Limited (中國車輛零部件科技控股有限公司) (stock code: 1269), which is listed on the Stock Exchange of Hong Kong. He worked in EV Capital Pte Ltd. as vice president and director from May 2007 to March 2010. Since November 2010, he served as an independent non-executive director of Chongyi Zhangyuan Tungsten Co., Ltd. (崇義章源鎢業股份有限公司) (stock code: 002378), which is listed on the Shenzhen Stock Exchange. Since 24 December 2012, he served as an independent non-executive director of China Tianrui Group Cement Company Limited (stock code: 1252), which is listed on the Stock Exchange of Hong Kong Limited. He has over 16 years of experience in corporate financing, auditing, accounting and taxation. He is a fellow member of the Chinese Institute of Certified Public Accountants.

Mr. Johnson Chi-King Fu, aged 58, is an independent non-executive Director of the Company. He was the China President of Rabobank Nederland, the chief executive officer of Hang Seng Bank (China) Limited and the Taiwan president of Standard Bank. He has over 30 years of experience in the financial industry. Over the past three years, Mr. Johnson Fu has not been a director of any other listed companies and has not by himself or through the institution in which he works, provided any professional services to the Company.

Mr. Chen Yuchuan, aged 78, is an independent non-executive Director of the Company. He is currently the director of the Science and Technology Committee of the Chinese Academy of Geological Sciences (中國地質科學院科技委), the director of the Mine and Geology Specialist Committee (礦床地質專業委員會), and the vice chairman of the International Association of the Genesis of Ore Deposits (國際礦床成因協會). He has obtained more than 52 years of experience in the area of mining and geology. He is also a member of the ninth National Committee of the Chinese People's Political Consultative Conference (第九屆全國政協委員) and an academician of the Chinese Academy of Engineering (中國工程院). Mr. Chen currently serves as an independent non-executive director of Zijin Mining Group Co., Ltd. (紫金礦業集團股份有限公司) (stock code: 2899 and 601899, respectively), which are listed on the Hong Kong Stock Exchange and the Shenzhen Stock Exchange respectively. He is also an independent non executive director of Chongyi Zhangyuan Tungsten Co., Ltd. (崇義章源鎢業股份有限公司) (stock code: 002378), which is listed on the Shenzhen Stock Exchange.

Mr. Wang Anjian, aged 59, is an independent non-executive Director of the Company. Mr. Wang is currently the director and researcher of the Research Center for Strategy of Global Mineral Resources, Chinese Academy of Geological Sciences, responsible for the organizing, researching and training and he is also the standing director of Chinese Society for Environmental Sciences and the adjunct professor of China University of Geosciences (Beijing). Mr. Wang has extensive experience in the research of resource strategy. Over the past three years, he has not been a director of any other listed companies.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT *(CONTINUED)*

5. Senior Management

Name	Age	Position/Title	Biography
Pan Guocheng	56	Chief Executive Officer and President	See "Biography of Executive Directors"
Zheng Xuezhi	43	Chief Financial Officer	See "Biography of Executive Directors"
Lu Zengxiang	47	Vice President	See below
Qiu Yumin	50	Vice President (the president of Hanking Australia Pty Ltd. (罕王澳大利亞公司）, a wholly-owned subsidiary of the Company, up to the date of this report）	See "Biography of Executive Directors"
Xia Zhuo	47	Company Secretary	See "Biography of Executive Directors"
Huang Jinfu	56	General Manager of Aoniu Mining	See below

Mr. Lu Zengxiang, aged 47, is a vice president of the Company and is responsible for business operation of the Group, especially the day-to-day operation of Maogong Mine, Xingzhou Mine and Benxi Mine. He joined the Group in 2008. He is currently serving as director and chief operating officer of Aoniu Mining. Being in his previous and current positions in the Group, Mr. Lu Zengxiang has obtained more than 24 years of experience in the mining industry. Mr. Lu Zengxiang is a senior mining engineer with extensive academic products in the areas of metal mine construction, mining and safety management.

Mr. Huang Jinfu, aged 56, the director and general manager of Aoniu Mining of the Company, and is responsible for its management and day-to-day operation. He joined the Group in 2008 and has more than 30 years of experience in the mining industry and is a mineral processing engineer.

6. Joint Company Secretary

Ms. Mok Ming Wai, aged 41, is a director of KCS Hong Kong Limited, she has over 18 years' experience in professional and in-house experience in company secretarial field. Ms Mok is a fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in United Kingdom. Meanwhile, Ms. Mok is also the company secretary or joint company secretary of certain listed companies. Ms. Mok maintains contact with the senior management of the Company through close communication with another joint company secretary of the Company.

Mr. Xia Zhuo is our joint company secretary. For details regarding Mr. Xia's experience, see "Biography of Executive Directors" above.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF CHINA HANKING HOLDINGS LIMITED

(中國罕王控股有限公司)

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Hanking Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 71 to 137, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with the Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT ACCOUNTANT'S REPORT *(CONTINUED)*

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
19 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000 (Restated)
Revenue	8	**1,361,138**	1,726,488
Cost of sales		**(620,174)**	(585,846)
Gross profit		**740,964**	1,140,642
Other income	9	**14,537**	32,127
Other gains and expenses	10	**(11,085)**	(24,627)
Selling and distribution expenses		**(29,283)**	(23,847)
Administrative expenses		**(174,650)**	(148,674)
Finance costs	11	**(50,904)**	(278,549)
Profit before tax	12	**489,579**	697,072
Income tax expense	13	**(129,423)**	(241,048)
Profit for the year		**360,156**	456,024
Other comprehensive income:			
Fair value loss on available-for-sale financial assets		**(327)**	–
Total comprehensive income for the year		**359,829**	456,024
Profit for the year attributable to:			
Owners of the Company		**361,342**	452,765
Non-controlling interests		**(1,186)**	3,259
		360,156	456,024
Total comprehensive income for the year attributable to:			
Owners of the Company		**361,015**	452,765
Non-controlling interests		**(1,186)**	3,259
		359,829	456,024
EARNINGS PER SHARE			
– Basic and diluted (RMB cent per share)	17	**20**	29

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	**31/12/2012 RMB'000**	31/12/2011 RMB'000 (Restated)	1/1/2011 RMB'000 (Restated)
NON-CURRENT ASSETS				
Property, plant and equipment	18	**861,322**	509,697	267,984
Intangible assets	19	**318,192**	316,144	305,669
Prepaid lease payments	20	**348,455**	282,641	152,436
Deferred tax assets	21	**4,152**	7,464	3,647
Loan receivable from a third party	22	**15,300**	16,000	–
Deposit on acquisition of property, plant and equipment		**25,010**	16,010	17,456
		1,572,431	1,147,956	747,192
CURRENT ASSETS				
Inventories	23	**92,247**	55,122	74,005
Prepaid lease payments	20	**47,026**	25,302	23,883
Trade and other receivables	24	**371,862**	437,942	204,929
Tax recoverable		**7,198**	6,070	–
Loans receivable from related parties	25	**–**	367,231	436,557
Available-for-sale financial assets	26	**2,941**	–	–
Bank balances and cash	27	**577,985**	317,563	53,439
		1,099,259	1,209,230	792,813
CURRENT LIABILITIES				
Trade and other payables	28	**261,352**	266,088	231,843
Borrowings	29	**800,000**	299,943	295,000
Loans payable to non-controlling interest of a subsidiary	30	**6,052**	–	–
Loan payable to a third party		**–**	–	46,506
Loans payable to related parties	31	**–**	319,444	81,297
Consideration payable	32	**85,788**	2,350	31,000
Tax liabilities		**197,053**	206,756	126,412
		1,350,245	1,094,581	812,058
NET CURRENT (LIABILITIES) ASSETS		**(250,986)**	114,649	(19,245)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,321,445**	1,262,605	727,947

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(CONTINUED)*

As at 31 December 2012

	Notes	**31/12/2012 RMB'000**	31/12/2011 RMB'000 (Restated)	1/1/2011 RMB'000 (Restated)
CAPITAL AND RESERVES				
Share capital/Paid-in Capital	33	**149,137**	149,137	162,042
Reserves		**1,161,779**	1,111,804	316,079
Equity attributable to owners of the Company		**1,310,916**	1,260,941	478,121
Non-controlling interests		**10,529**	1,664	69,826
TOTAL EQUITY		**1,321,445**	1,262,605	547,947
NON CURRENT LIABILITIES				
Borrowings	29	**–**	–	180,000
		1,321,445	1,262,605	727,947

The consolidated financial statements on pages 71 to 137 were approved and authorised for issue by the board of directors on 19 March 2013 and are signed on its behalf by:

Yang Min
Director

Zheng XueZhi
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

		Reserves								
	Share capital/ Paid-in capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Statutory surplus reserve RMB'000 (note a)	Future development funds reserve RMB'000 (note b)	Investment revaluation reserve RMB'000	Retained earnings RMB'000	Attributable to owners of the Company RMB'000	Non-controlling interests RMB'000	Total RMB'000
Balance at 1 January 2011 as previously stated	162,042	–	(82,247)	73,269	198,808	–	42,289	394,161	69,826	463,987
Adjustments in respect of the acquisition from controlling shareholders	–	–	10,000	–	–	–	73,960	83,960	–	83,960
As restated	162,042	–	(72,247)	73,269	198,808	–	116,249	478,121	69,826	547,947
Acquisition of equity interest from non-controlling shareholders (note c)	–	–	61,085	–	–	–	–	61,085	(73,085)	(12,000)
Distribution to the then equity shareholders upon group reorganisations (note d)	(162,042)	–	(387,958)	–	–	–	–	(550,000)	–	(550,000)
Shareholder's contribution (Note 29(ii))	–	–	175,960	–	–	–	–	175,960	–	175,960
Share capitalization (Note 33)	122,229	(122,229)	–	–	–	–	–	–	–	–
New issue of shares by way of public offering (Note 33)	26,908	648,488	–	–	–	–	–	675,396	–	675,396
Transaction costs attributable–to issue of new shares	–	(30,722)	–	–	–	–	–	(30,722)	–	(30,722)
Disposal of equity interest to non-controlling shareholders (note e)	–	–	(1,664)	–	–	–	–	(1,664)	1,664	–
Profit and total comprehensive income for the year	–	–	–	–	–	–	452,765	452,765	3,259	456,024
Transfer to future development funds reserve	–	–	–	–	68,598	–	(68,598)	–	–	–
Balance at 31 December 2011 (restated)	149,137	495,537	(224,824)	73,269	267,406	–	500,416	1,260,941	1,664	1,262,605
Profit for the year	–	–	–	–	–	–	361,342	361,342	(1,186)	360,156
Other comprehensive loss for the year	–	–	–	–	–	(327)	–	(327)	–	(327)
Profit and total comprehensive income for the year	–	–	–	–	–	(327)	361,342	361,015	(1,186)	359,829
Distribution to the then equity shareholders upon acquisition of Fushun Shangma (note e)	–	–	(268,288)	–	–	–	(4,322)	(272,610)	(780)	(273,390)
Transfer to future development funds reserve	–	–	–	–	104,952	–	(104,952)	–	–	–
2011 final dividend	–	–	–	–	–	–	(38,430)	(38,430)	–	(38,430)
Profit appropriation to surplus reserve	–	–	–	13,777	–	–	(13,777)	–	–	–
Acquisition of a subsidiary (Note 34)	–	–	–	–	–	–	–	–	10,831	10,831
Balance at 31 December 2012	149,137	495,537	(493,112)	87,046	372,358	(327)	700,277	1,310,916	10,529	1,321,445

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY *(CONTINUED)*

For the year ended 31 December 2012

Notes:

(a) In accordance with the relevant company laws and regulations of the People's Republic of China (the "PRC") and the Articles of Association of the PRC subsidiaries, the PRC subsidiaries are required to appropriate 10% of their profit after taxation reported in their financial statements prepared in accordance with relevant accounting principles and financial regulations applicable to enterprises established in the PRC (the "PRC GAAP") to the statutory surplus reserve. The appropriation to statutory surplus reserve may cease if the balance of the statutory surplus reserve has reached 50% of the registered capital of the relevant PRC subsidiaries.

The statutory surplus reserves can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue. However, when converting the statutory surplus reserve of the PRC subsidiaries into capital, the balance of such reserve remaining unconverted must not be less than 25% of the registered capital of the relevant PRC subsidiaries.

(b) Pursuant to regulation in the PRC, the Company's subsidiaries Fushun Hanking Aoniu Mining, Limited. ("Aoniu Mining"), Benxi Hanking Mining Co., Ltd. ("Benxi Mining"), Fushun Maogong Mining Co., Ltd. ("Maogong Mining"), Fushun Xingzhou Mining Co., Ltd. ("Xingzhou Mining"), Fushun Hanking Shangma Mining Company Limited ("Fushun Shangma") and Fushun Hanking Shangma Iron Mine ("Shangma Mining") are required to transfer an amount to a future development fund from RMB23 to RMB34 per ton of iron ore mined annually which will be used for enhancement of safety production environment and improvement of facilities. The fund can only be used for the future development of the iron ore mining business and is not available for distribution to shareholders. RMB145,235,000 (2011: RMB83,976,000) of future development fund was provided and RMB40,283,000 (2011: RMB15,378,000) of future development fund was utilised during the year ended 31 December 2012.

(c) The amount of special reserve of RMB61,085,000, resulting from the group reorganisation completed on 18 January 2011 (the "Group Reorganisation"), represented acquisition of additional 7.60% effective equity interest in Shenyang Toyo Steel Utility Co., Ltd ("STSU") resulting from the acquisition of 75% equity interest in STSU from Hanking Industrial Group Co., Ltd. ("罕王實業集團有限公司") by China Hanking Hong Kong Limited ("Hanking HK") on 18 January 2011 with a consideration of RMB12,000,000. Hanking Industrial Group Co., Ltd. is controlled by the ultimate controlling parties (Ms. Yang Min ("楊敏") and Mr. Yang Jiye ("楊繼野")) (the "Controlling Parties")

(d) Pursuant to the Group Reorganisation on 18 January 2011, STSU and Shenyang Yuanzheng Industry Limited ("Shenyang Yuanzheng") acquired 99% and 1% equity interests in Aoniu Mining from Hanking Industrial Group Co., Ltd. and Ms. Yang Min for a cash consideration of RMB544,500,000 and RMB5,500,000, respectively. It is accounted for as distribution to the then equity shareholders.

(e) Pursuant to an extraordinary general meeting held on 21 September 2012, Aoniu Mining acquired 100% equity interest of Fushun Shangma from Shenyang Toyo Steel Company Limited (瀋陽東洋製鋼有限公司) for a cash consideration of RMB100,000,000 (the "Acquisition of Fushun Shangma"). Details of the acquisition are set out in note 2.

Prior to the Acquisition of Fushun Shangma, the mining operation of Shangma Mining, a company established in the PRC and wholly owned by Mr. Yang Jiye, and its related assets and liabilities (the "Shangma Mining Operation") had been transferred to Fushun Shangma on 31 May 2012. Certain non-core net assets of RMB173,390,000 was retained by Shangma Mining and treated as distribution in species to the Controlling Parties.

Special reserve of RMB1,664,000 arising from the disposal of 33.28% effective equity interest in Fushun Shangma by the Controlling Parties on 28 December 2011, represents the net carrying amount of the equity interest Fushun Shangma at the date of disposal through the intermediate holding company. The intermediate holding company is controlled by the Controlling Parties.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000 (Restated)
OPERATING ACTIVITIES			
Profit before tax		**489,579**	697,072
Adjustments for:			
Finance costs		**50,904**	278,549
Interest income		**(8,888)**	(2,041)
Interest on available-for-sale financial assets		**(2,433)**	–
Reversal of allowance for doubtful debt		**–**	(3,399)
Loss on disposal of property, plant and equipment		**786**	362
Depreciation of property, plant and equipment		**62,750**	46,498
Release of prepaid lease payments		**31,700**	27,640
Amortisation of intangible assets		**23,279**	22,315
Net foreign exchange loss (gain)		**2,166**	(13,380)
Operating cash flows before movements in working capital		**649,843**	1,053,616
(Increase) decrease in inventories		**(23,649)**	18,883
Decrease (increase) in trade and other receivables		**63,773**	(254,453)
Increase in trade and other payables		**5,918**	10,400
Cash generated from operations		**695,885**	828,446
Interest paid		**(50,904)**	(81,507)
Income tax paid		**(153,306)**	(170,591)
NET CASH FROM OPERATING ACTIVITIES		**491,675**	576,348
INVESTING ACTIVITIES			
Acquisition of a subsidiary	34	**(6,150)**	–
Acquisition of available-for-sale financial assets		**(653,268)**	–
Proceeds on disposal of available-for-sale financial assets		**652,433**	–
Interest received		**3,867**	2,041
Purchases and deposit paid for acquisition of property, plant and equipment		**(354,868)**	(257,773)
Repayments of loans to related parties		**316,151**	376,481
Advance to related parties		**–**	(307,155)
Purchase of intangible assets		**(25,327)**	(32,790)
Advance to a third party		**–**	(16,000)
Repayment from a third party		**700**	–
Payments for prepaid lease payments		**(125,678)**	(165,324)
Proceeds on disposal of property, plant and equipment		**1,443**	25,390
NET CASH USED IN INVESTING ACTIVITIES		**(190,697)**	(375,130)

CONSOLIDATED STATEMENT OF CASH FLOWS *(CONTINUED)*

For the year ended 31 December 2012

	Notes	**2012 RMB'000**	2011 RMB'000 (Restated)
FINANCING ACTIVITIES			
Gross proceeds from issue of shares by way of initial public offering		**–**	675,396
Transaction costs attributable to issue of new shares		**–**	(30,722)
Loans from related parties		**–**	251,745
Repayments of loans from related parties		**(319,444)**	(13,598)
Repayment from a third party		**–**	(46,506)
Proceeds from borrowings		**920,000**	1,082,115
Repayment of borrowings		**(369,946)**	(1,230,311)
Transaction costs attributable to the issue of other borrowing		**–**	(21,082)
Distribution to the then equity shareholders	2	**(14,212)**	(550,000)
Acquisition of non-controlling interests		**(2,350)**	(40,650)
Net cash outflow on deemed distribution	35	**(214,008)**	–
Dividend paid – owners of the Company		**(38,430)**	–
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(38,390)**	76,387
NET INCREASE IN CASH AND CASH EQUIVALENTS		**262,588**	277,605
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**317,563**	53,439
Effect of foreign exchange rate changes		**(2,166)**	(13,481)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER represented by bank balances and cash		**577,985**	317,563

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. GENERAL INFORMATION

The Company is a limited company incorporated in the Cayman Islands on 2 August 2010 and acts as an investment holding company. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30 September 2011.

The address of principal place of business in Hong Kong of the Company in Hong Kong is 8th Floor, Gloucester Tower, The Landmark, 15 Queen's Road, Central, Hong Kong.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

The Company is an investing holding company. The Group is engaged in iron ore mining and processing. Details of the Company's subsidiaries are set out in note 40.

2. PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Company became holding company of the Group on 18 January 2011 through the Group Reorganisation (as discussed in note (a) below). Also, the Acquisition of Fushun Shangma from Controlling Parties (see note (b) below for details) had been completed on 21 September 2012. All of these events involve business combinations under common control and as a result, the consolidated financial statements of the Group throughout the years ended 31 December 2011 and 2012 has been prepared using the principles of merger accounting, and includes the results and cash flows of the companies comprising the Group as if the business combination had occurred from the date when the combining entities or business first came under the control of the Controlling Parties, Ms. Yang Min and Mr. Yang Jiye, except that the results attributable to the owners of the group companies other than Ms. Yang Min and Mr. Yang Jiye prior to the Group Reorganisation and the Acquisition of Fushun Shangma were treated as non-controlling interests. The consolidated statements of financial position of the Group as at 31 December 2011 have been prepared in accordance with the principles of merger accounting to present the assets and liabilities of the companies comprising the Group as if the group structure had been in existence as at those dates and in accordance with the respective equity interests in the individual companies attributable to Ms. Yang Min and Mr. Yang Jiye as at those dates.

2. PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

a) Group Reorganisation:

Prior to the Group Reorganisation, Ms. Yang Min and Mr. Yang Jiye, through their direct equity interest and ownership in certain related companies which had equity interest in, effectively controlled the companies comprising the Group as follows:

	1 January 2011 to 17 January 2011
STSU	92.40%
Aoniu Mining	89.07%
Xingzhou Mining	89.07%
Benxi Mining	89.07%
Shenyang Yuanzheng	92.40%
Maogong Mining	89.07%

Through the Group Reorganisation as detailed in the prospectus of Group dated 20 September 2011 and 2011 annual report of the Group dated 16 March 2012, the Group obtained 100% direct or indirect equity interest in the companies comprising the Group. The Group reorganisation was completed on 18 January 2011.

b) Acquisition of Fushun Shangma:

Prior to the Acquisition of Fushun Shangma, Ms. Yang Min and Mr. Yang Jiye, through their direct equity interest and ownership in certain related companies which had equity interest in, effectively controlled the following companies comprising the Group:

	1 January 2011 to 27 December 2011	28 December 2011 to 30 May 2012	31 May 2012 to 20 September 2012
Shangma Mining	100.00%	100.00%	N/A
Fushun Shangma	100.00%	66.72%	66.72%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

2. PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

b) Acquisition of Fushun Shangma: (continued)

On 21 September 2012, Aoniu Mining, a subsidiary of the Company, acquired 100% equity interest of Fushun Shangma from Shenyang Toyo Steel Company Limited (瀋陽東洋製鋼有限公司), a company controlled by the Group's controlling shareholders Ms. Yang Min and Mr. Yang Jiye at a cash consideration of RMB100,000,000 (the "Acquisition of Fushun Shangma"). At the date of acquisition, Fushun Shangma owned Shangma Mining Operation. Such operation was previously held by Shangma Mining and transferred to Fushun Shangma in May 2012 (the " Transfer") with a consideration of RMB212,458,000 fully settled during the year ended 31 December 2012. As Fushun Shangma, Shangma Mining and the Group have been under the common control of Ms. Yang Min and Mr. Yang Jiye before and after the Acquisition of Fushun Shangma and the Transfer, the Acquisition of Fushun Shangma and the Transfer have been considered as business combinations under common control and are accounted for using the principal of merger accounting.

The consideration paid/payable for the Acquisition of Fushun Shangma and Transfer is accounted for as deemed distribution to the Group's controlling shareholders. RMB14,212,000 had been paid to the Group's controlling shareholders during the year ended 31 December 2012 and the remaining balance of RMB85,788,000 was recorded as consideration payable as at 31 December 2012.

Fushun Shangma was established on 4 March 2009 through companies controlled by the Controlling Parties. Fushun Shangma did not carry out any business activity since establishment other than the acquisition of the Shangma Mining Operation. On 31 May 2012, the Shangma Mining Operation was acquired by Fushan Shangma and certain non-core assets and liabilities of Shangma Mining amounting to RMB173,390,000 were retained by Shangma Mining ("Retained Net Assets"). As the Acquisition of Fushun Shangma and the Transfer are business combinations under common control, Shangma Mining Operation were included in the consolidated financial statements of the Group from the earliest period presented and the Retained Net Assets were accounted for as a deemed distribution to the Controlling Parties on 31 May 2012.

Upon completion of the Acquisition of Fushun Shangma on 21 September 2012, the Company has 100% indirect equity interest in Fushan Shangma.

2. PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

b) Acquisition of Fushun Shangma: (continued)

The effects of adopting merger accounting to account for the Acquisition of Fushun Shangma and the Transfer described above on the consolidated statement of comprehensive income of the Group for the current and prior years is as follows:

	2012 RMB'000	2011 RMB'000
Increase in revenue	**179,244**	274,211
Increase in cost of sales	**139,198**	160,551
Increase in other income	**189**	119
Increase in other expenses	**54**	932
Increase in selling and distribution expenses	**–**	154
Increase in administrative expenses	**23,884**	28,163
Increase in finance costs	**1,424**	8,444
Increase in income tax expense	**4,165**	26,865
Increase in profit and total comprehensive income for the year	**10,708**	49,221
Increase (decrease) in profit and total comprehensive income for the year attributable to:		
Owners of the Company	**11,592**	49,221
Non-controlling interests	**(884)**	–
	10,708	49,221
Increase in earnings per share – Basic (RMB cent per share)	**1**	3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

2. PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

b) Acquisition of Fushun Shangma: (continued)

The effect of the Acquisition of Fushun Shangma and the Transfer on the financial positions of the Group as at 1 January 2011 and 31 December 2011 is as follows:

	As at 1/1/2011 (originally stated) RMB'000	Adjustments RMB'000	As at 1/1/2011 (restated) RMB'000	As at 31/12/2011 (originally stated) RMB'000	Adjustments RMB'000	As at 31/12/2011 (restated) RMB'000
Property, plant and equipment	209,803	58,181	267,984	436,873	72,824	509,697
Intangible assets	294,179	11,490	305,669	307,999	8,145	316,144
Prepaid lease payments	123,017	53,302	176,319	250,540	57,403	307,943
Deferred tax assets	2,670	977	3,647	6,734	730	7,464
Deposit on acquisition of property, plant and equipment	16,606	850	17,456	14,010	2,000	16,010
Inventories	62,551	11,454	74,005	38,046	17,076	55,122
Trade and other receivables	164,107	40,822	204,929	399,524	38,418	437,942
Tax recoverable	–	–	–	6,070	–	6,070
Loans receivable from related parties	342,898	93,659	436,557	–	367,231	367,231
Loan receivable from a third party	–	–	–	–	16,000	16,000
Bank balances and cash	53,305	134	53,439	315,701	1,862	317,563
Trade and other payables	(166,532)	(65,311)	(231,843)	(201,937)	(64,151)	(266,088)
Borrowings	(475,000)	–	(475,000)	(250,000)	(49,943)	(299,943)
Loan payable to a third party	–	(46,506)	(46,506)	–	–	–
Loans payable to related parties	(10,578)	(70,719)	(81,297)	–	(319,444)	(319,444)
Consideration payable	(31,000)	–	(31,000)	(2,350)	–	(2,350)
Tax liabilities	(122,039)	(4,373)	(126,412)	(191,786)	(14,970)	(206,756)
	463,987	83,960	547,947	1,129,424	133,181	1,262,605
Equity attributable to owners of the Company	394,161	83,960	478,121	1,129,424	131,317	1,260,941
Non-controlling interests	69,826	–	69,826	–	1,664	1,664
Total effects on equity	463,987	83,960	547,947	1,129,424	133,181	1,262,605

3. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied the following amendments to International Accounting Standards ("IASs"), International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB").

Amendments to IAS 12	Deferred Tax: Recovery of Underlying Asset; and
Amendments to IFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets.

The application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and revised Standards and Interpretations that have been issued but are not yet effective:

Amendments to IFRSs	Annual Improvements to IFRSs 2009 – 2011 Cycle[1]
Amendments to IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[3]
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities[2]
IFRS 9	Financial Instruments[3]
IFRS 10	Consolidated Financial Statements[1]
IFRS 11	Joint Arrangements[1]
IFRS 12	Disclosure of Interests in Other Entities[1]
IFRS 13	Fair Value Measurement[1]
IAS 19 (as revised in 2011)	Employee Benefits[1]
IAS 27 (as revised in 2011)	Separate Financial Statements[1]
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[2]
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine[1]

[1] Effective for annual periods beginning on or after 1 January 2013.
[2] Effective for annual periods beginning on or after 1 January 2014.
[3] Effective for annual periods beginning on or after 1 January 2015.
[4] Effective for annual periods beginning on or after 1 July 2012.

3. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Annual Improvements to IFRSs 2009 – 2011 Cycle issued in June 2012

The Annual Improvements to IFRSs 2009 – 2011 Cycle include a number of amendments to various IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to IFRSs include the amendments to IAS 16 Property, Plant and Equipment and the amendments to IAS 32 Financial Instruments: Presentation.

The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise. The directors do not anticipate that the application of the amendments will have a material effect on the Group's consolidated financial statements.

The amendments to IAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with IAS 12 Income Taxes. The directors anticipate that the amendments to IAS 32 will have no effect on the Group's consolidated financial statements as the Group has already adopted this treatment.

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described as follows:

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

3. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

IFRS 9 Financial Instruments (continued)

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted. The directors of the Company anticipate that the application of IFRS9 will have no material impact on the consolidated financial statements.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs"). Under the Interpretation, the costs from this waste removal activity ("stripping") which provide improved access to ore is recognised as a non-current asset ("stripping activity asset") when certain criteria are met, whereas the costs of normal ongoing operational stripping activities are accounted for in accordance with IAS 2 Inventories. The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset and classified as tangible or intangible according to the nature of the existing asset of which it forms part.

IFRIC 20 is effective for annual periods beginning on or after 1 January 2013. Specific transitional provisions are provided to entities that apply IFRIC 20 for the first time. However, IFRIC 20 must be applied to production stripping costs incurred on or after the beginning of the earliest period presented. The directors of the Company anticipate that the application of IFRIC 20 will have no material impact on the consolidated financial statements.

New and Revised Standards on Consolidation, Joint Arrangements, Associates and Disclosure

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

IFRS 10 replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. SIC – 12 *Consolidation – Special Purpose Entities* will be withdrawn upon the effective date of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is, control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 11 replaces IAS 31 *Interests in Joint Ventures.* IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC – 13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers* will be withdrawn upon the effective date of IFRS 11.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

3. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

In June 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these five IFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time

The directors of the Company anticipate that these five standards will be applied in the Group's consolidated financial statements for financial year ending 31 December 2013. The directors of the Company is in the progress of assessing the impact for the application of the new standards.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year (other than business combinations involving entities under common control) are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the equity of the owners of the Company.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is 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.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interest in existing subsidiaries that do not result in the Group losing control over the subsidiary are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Merger accounting for business combination involving entities under common control

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

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquirer's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as 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 eligible for capitalisation.

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

Property, plant and equipment

Property, plant and equipment including building held for use in the production or supply of good or services, or for administrative purpose, (other than construction in progress), are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Property, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Such property, plant and equipment are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Prepaid lease payments

The payments made on the rental of land are accounted for as an operating lease which is released to the profit or loss on a straight-line basis over their relevant lease terms.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses.

Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Exploration and evaluation right

Exploration rights are stated at cost less any impairment losses. Exploration and evaluation costs include expenditure incurred to secure further mineralisation in existing ore bodies. Exploration and evaluation right will be transferred to mining rights once the mining rights certificates obtained. The carrying amount of exploration and evaluation right is assessed for impairment when facts or circumstances suggest the carrying amount of the asset may exceed its recoverable amount.

Mining rights

Mining rights are stated at cost less amortisation and any recognised impairment loss. The mining rights are amortised over the shorter of the unexpired period of the rights on the straight-line basis or 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 units of production method.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the weighted average method.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the these financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to state-managed retirement benefits schemes are charged as expenses when employees have rendered service entitling them to the contributions.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of the reporting period subsequent to initial recognition, loans and receivables (including trade and other receivables, loan receivable from a third party, loans receivable from related parties and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Equity and debt securities held by the Group that are classified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale monetary financial assets relating to interest income calculated using the effective interest method and dividends on available-for-sale financial equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

Loans and receivables are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been impacted. The objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets (continued)

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit terms of the customers, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivables is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables, borrowings, consideration payable, loan payable to a third party, loans payable to related parties and loans payable to non-controlling interests of a subsidiary are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment losses on tangible and intangible assets (continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

5. KEY SOURCE OF ESTIMATION UNCERTAINTY

The following are 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.

Useful lives of mining rights

As at 31 December 2012, mining rights of RMB291,854,000 (31 December 2011: RMB314,305,000; 1 January 2011: RMB304,476,000) has been recognised in the Group's consolidated statement of financial position. Mining rights are amortised over the shorter of the unexpired period of the rights or the estimated useful lives of the mines using the units of production method.

Engineering estimates of the Group's mine reserves are inherently imprecise and represent only approximate amounts because of the significant judgments 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 on regular intervals taking into account recent production and technical information about each mine. This change is considered as a change in estimate for accounting purposes and is reflected on a prospective basis in amortisation rates. Changes in the estimate of mine reserves are also taken into account in impairment assessment of non-current assets.

5. KEY SOURCE OF ESTIMATION UNCERTAINTY (continued)

Useful lives of property, plant and equipment

The Group estimates useful lives and related depreciation charges for its items of property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of items of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and actions of its competitors. Management will increase the depreciation charge where useful lives are less than previously estimated, or it will record reserve for technically obsolete assets. The carrying amount of property, plant and equipment at 31 December 2012 were RMB861,322,000 (31 December 2011: RMB509,697,000; 1 January 2011: RMB267,984,000).

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximizing the return to shareholders through the optimisation of the debt and equity balances. The Group's overall strategy remains unchanged.

The capital structure of the Group consists of debts which includes the borrowings disclosed in note 29, and equity attributable to owners of the Company, comprising share capital and reserve.

The management of the Group reviews the capital structure on an annual basis. As part of this review, the management considers the cost of capital and the risks associates with each class of capital. Based on recommendations of the management, the Group will balance its overall structure through the payment of dividends, capital injection as well as the issue of new debt or the redemption of existing debt.

7. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	31/12/2012 RMB'000	31/12/2011 RMB'000 (Restated)	1/1/2011 RMB'000 (Restated)
Financial assets:			
Loans and receivables (including cash and cash equivalents)	**770,334**	969,208	638,672
Available-for-sale financial assets	**2,941**	–	–
	773,275	969,208	638,672
Financial liabilities:			
Amortised costs	**1,063,686**	768,735	725,842

7. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies

The Group's major financial assets and liabilities include trade and other receivables, loans receivable from related parties, loan receivable from a third party, cash and bank balances, trade and other payables, loans payable to non-controlling interest of a subsidiary, loan payable to a third party, loans payable to related parties, consideration payable and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

The Group's activities expose it primarily to the market risks (including currency risk and interest risk), credit risk and liquidity risk. There has been no change to the Group's exposure to these risks or the manner in which it manages and measures the risks.

Interest risk

The Group is exposed to fair value interest rate risk mainly from its fixed-rate bank borrowings. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group is also exposed to cash flow interest rate risk in relation to floating-rate bank borrowings (see note 29 for details of these borrowings) and floating-rate bank balances.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for its floating rate bank borrowing. The analysis is prepared assuming the floating rate bank borrowing outstanding at the end of the reporting period were outstanding for the whole year. 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2012 would decrease/increase approximately by RMB718,000 (2011: decrease/increase approximately by RMB480,000). This is mainly attributable to the Group's exposure to interest rates on its floating-rate bank borrowings.

7. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Interest risk (continued)

Sensitivity analysis (continued)

The sensitivity analyses below have been determined based on the exposure to interest rates for its floating rate bank balances. The analysis is prepared assuming the floating rate bank balances outstanding at the end of the reporting period were outstanding for the whole year. 10 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 10 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2012 would increase/decrease approximately by RMB246,000 (2011: increase/decrease approximately by RMB238,000). This is mainly attributable to the Group's exposure to interest rates on its floating-rate bank balances.

Currency risk

The Group has bank balance denominated in United States Dollars ("USD") and Hong Kong Dollars ("HKD"), which expose the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	USD	
	Assets	**Liabilities**
	RMB'000	RMB'000
As at 31 December 2011	78,345	–
As at 31 December 2012	22,046	–

	HKD	
	Assets	**Liabilities**
	RMB'000	RMB'000
As at 31 December 2011	9,719	–
As at 31 December 2012	534	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

7. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Currency risk (continued)

Sensitivity analysis (continued)

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against USD and HKD, 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates an increase in post-tax profit where a 5% weakening of RMB against USD and HKD. For a 5% strengthen of RMB against USD and HKD, there would be an equal and opposite impact on the post-tax profit and the balances below would be negative.

	2012 **RMB'000**	2011 RMB'000
Profit for the year	**847**	3,233

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Credit risk management

As at the end of reporting date, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimize the credit risk, the directors of the Company has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. In addition, the directors of the Company review the recoverability of each trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

The Group has concentration of credit risk as 100% of the Group's trade and bill receivables as at 31 December 2012 of approximately RMB143,982,000 (2011: RMB233,143,000), were derived from four customers (2011: two customers). In order to minimise the credit risk, the directors of the Company continuously monitor the level of exposure to ensure that follow-up actions and/or corrective actions are taken promptly to lower exposure or even to recover the overdue debts.

7. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk management (continued)

The Group has concentration of credit risk on liquid funds which are deposited with several banks. However, the credit risk on bank balances is limited because the majority of the counterparties are banks with good reputation and/or good credit rating.

Liquidity risk management

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with the terms of borrowings.

At 31 December 2012, the Group has net current liability of RMB250,986,000. Aoniu had an unutilised banking facility of RMB300,000,000 which will be expired on 31 December 2014. The directors of the Company are satisfied that the Group will have sufficient financial resource to meet its financial obligation as they fall due for the foreseeable future after taking into amount of the available banking facilities and internally generated funds. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

7. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Liquidity risk management (continued)

Liquidity table

	Weighted average interest rate %	Repayable on demand or less than 3 months RMB'000	4 months to 1 year RMB'000	1 year to 2 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2012						
Trade and other payables	**–**	**171,846**	**–**	**–**	**171,846**	**171,846**
Loans payable to non-controlling interests of a subsidiary	**13.9**	**6,052**	**–**	**–**	**6,052**	**6,052**
Consideration payable	**–**	**85,788**	**–**	**–**	**85,788**	**85,788**
Bank borrowings – floating rate	**6.78**	**206,782**	**206,202**	**–**	**412,984**	**400,000**
Bank borrowings – fixed rate	**7.54**	**7,441**	**404,402**	**–**	**411,843**	**400,000**
		477,909	**610,604**	**–**	**1,088,513**	**1,063,686**
As at 31 December 2011						
Trade and other payables	–	146,998	–	–	146,998	146,998
Loans payable to related parties	–	319,444	–	–	319,444	319,444
Consideration payable	–	2,350	–	–	2,350	2,350
Bank borrowings – floating rate	6.85	53,698	205,023	–	258,721	250,000
Bank borrowings – fixed rate	6.41	789	50,145	–	50,934	49,943
		523,279	255,168	–	778,447	768,735
As at 1 January 2011						
Trade and other payables	–	138,545	–	–	138,545	138,545
Loans payable to related parties	–	81,297	–	–	81,297	81,297
Consideration payable	–	31,000	–	–	31,000	31,000
Bank borrowings – floating rate	5.70	–	114,678	180,482	295,160	280,000
Bank borrowings – fixed rate	6.47	–	203,421	–	203,421	195,000
Financial Guarantee		150,000	–	–	150,000	–
		400,842	318,099	180,482	899,423	725,842

7. FINANCIAL INSTRUMENTS (continued)

(c) Fair value of financial instruments

The fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively.

The fair value of the other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors consider that the carrying amount of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximates their fair value.

8. REVENUE AND SEGMENT INFORMATION

(a) Revenue

	2012 **RMB'000**	2011 RMB'000 (Restated)
Sales of goods	**1,361,138**	1,726,488

(b) Segment information

The Group has operating in one segment, being the iron ore mining and processing. The Group identified an operating segment which is a component of the Group (a) that engages in business activities from which it may earn revenues and incur expenses; and (b) whose operating results are reviewed regularly by the Board, the chief operating decision maker, to make decisions about resources allocation and assess its performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

8. REVENUE AND SEGMENT INFORMATION (continued)

(b) Segment information (continued)

The accounting policies of the operating segment are the same as those described in the summary of significant accounting policies except that the financial impact of deferred taxation, effective interest on other borrowings and listing expenses had not been considered by the Group's chief operating decision maker to make decisions about resources to be allocated and assess performance. Reconciliation from the operating segment to the consolidated financial statements is as following:

	2012 **RMB'000**	2011 RMB'000 (Restated)
Segment revenue	**1,361,138**	1,726,488
Segment result	**362,789**	724,081
Less: Listing expenses	**–**	32,448
Deferred taxation	**2,633**	(3,817)
Effective interest on other borrowings	**–**	239,426
Profit for the year	**360,156**	456,024

All of the Group's revenue are derived from the PRC and the non-current assets are located in the PRC and therefore, no geographical information is presented.

8. REVENUE AND SEGMENT INFORMATION (continued)

(b) Segment information (continued)

The following illustrates the revenue from customers which contributing over 10% of the total revenue of the Group are as follows:

	2012 **RMB'000**	2011 RMB'000 (Restated)
Customer A	**669,084**	711,535
Customer B	**237,840**	323,152
Customer C	**222,000**	265,574
Customer D	**189,049**	178,054

9. OTHER INCOME

	2012 **RMB'000**	2011 RMB'000 (Restated)
Bank interest income	**8,888**	2,041
Interest on non-listed available-for-sale financial assets	**2,433**	–
Government grants (note)	**3,200**	30,000
Others	**16**	86
	14,537	32,127

Note: The amount of RMB3,200,000 recognised in 2012 represented various unconditional incentive subsidies granted by the PRC local government authorities.

The amount of RMB30,000,000 recognised in 2011 represented an unconditional government grant in recognition of the Group's contribution to environmental protection, restoration and rehabilitation.

Government grants are recognised in the consolidated statement of comprehensive income when received and when all conditions as specified in the grants have been met.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

10. OTHER GAINS AND EXPENSES

	2012 RMB'000	2011 RMB'000 (Restated)
Net foreign exchange (loss) gain	**(2,166)**	13,380
Loss on disposal of property, plant and equipment	**(786)**	(362)
Donations	**(4,410)**	(3,572)
Listing expenses	**–**	(32,448)
Others	**(3,723)**	(1,625)
	(11,085)	(24,627)

11. FINANCE COSTS

	2012 RMB'000	2011 RMB'000 (Restated)
Interests on bank borrowings wholly repayable within five years	**47,197**	20,906
Interests on bills discounted with no-recourse	**3,576**	18,217
Interests on loans payable to non-controlling interest of a subsidiary wholly repayable within five years	**131**	–
Effective interest on other borrowing wholly repayable within five years	**–**	239,426
	50,904	278,549

During the year ended 31 December 2011, the effective interest on other borrowing included the interest expense of RMB42,384,000 calculated on the basis of interest rate of 8% per annum and the value of the warrants of RMB175,960,000 and the transaction costs of approximately RMB21,082,000 related to US$120 million term loan (note 29(ii)).

12. PROFIT BEFORE TAX

Profit before taxation has been arrived at after charging (crediting):

	2012 **RMB'000**	2011 RMB'000 (Restated)
Cost of inventories recognized as an expense	**528,752**	522,267
Auditors' remuneration	**2,246**	1,468
Release of prepaid lease payments	**31,700**	27,640
Depreciation and amortisation:		
– Property, plant and equipment	**62,750**	46,498
– Intangible assets	**23,279**	22,315
	86,029	68,813
Staff costs (including directors):		
– Salary and other benefits	**130,817**	92,449
– Retirement benefits scheme contributions	**13,820**	8,373
	144,637	100,822
Reversal of allowance for doubtful debt included in administrative expenses	**–**	(3,399)

13. INCOME TAX EXPENSE

	2012 **RMB'000**	2011 RMB'000 (Restated)
Income tax expenses comprise:		
PRC enterprise income tax ("EIT") – current	**128,091**	242,591
(Over) under provision in prior years	**(1,301)**	2,274
Deferred tax – current year (Note 21)	**2,633**	(3,817)
	129,423	241,048

13. INCOME TAX EXPENSE (continued)

The Company was incorporated in the Cayman Islands and is not subject to any income tax.

China Hanking Investment Limited ("Hanking Investment") and China Hanking (BVI) International Limited ("Hanking International") were incorporated in the British Virgin Islands ("BVI") and are not subject to income tax of any jurisdiction since their incorporation.

Hanking HK was incorporated in Hong Kong and has had no assessable profits subject to Hong Kong Profits Tax since its incorporation.

Hanking Australia Pty Ltd. and Hanking Gold Mining Pty Ltd. were incorporated in Australia and has no assessable profits subject to Australia profits tax since its incorporation.

The subsidiaries established in the PRC other than Shangma Mining, are subject to enterprise income tax at a statutory tax rate of 25% (2011: 25%). Shangma Mining was an enterprise owned by Mr. Yang Jiye. The income tax for the pre-acquisition period was calculated on the basis of profit before taxation less a pre-determined amount and applying an income tax rate of 35%.

The tax charge for the year can be reconciled to the profit per the consolidated statement of comprehensive income as follows:

	2012	2011
	RMB'000	RMB'000
		(Restated)
Profit before tax	**489,579**	697,072
Tax at the PRC income tax rate of 25% (2011:25%)	**122,394**	174,268
Tax effect of expenses that are not deductible for tax purpose (note)	**2,035**	57,676
Tax effect of income that are not taxable for tax purpose	**(147)**	–
Effect of different tax rate of a subsidiary	**(838)**	6,742
Tax effect of deductible tax losses not recognised	**4,424**	88
Withholding income tax	**2,856**	–
(Over) under provision in prior years	**(1,301)**	2,274
	129,423	241,048

Note: The amount of 2011 mainly represented tax effect of effective interest expense of facility loan and other non-deductible expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

14. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the 15 (2011: 11) directors were as follows:

	For the year ended 31 December 2012				
	Directors' fees RMB'000	Retirement benefit scheme contributions RMB'000	Salary, wages and other allowance RMB'000	Performance incentive payments RMB'000	Total RMB'000
Executive directors:					
– Pan Guocheng	–	–	3,000	26	3,026
– Zheng Xuezhi	–	170	727	258	1,155
– Lu Zengxiang (resigned on 30 January 2012)	–	12	26	–	38
– Xia Zhuo	–	123	519	173	815
– Huang Jinfu (resigned on 30 January 2012)	–	20	43	–	63
– Qiu Yumin (appointed on 30 January 2012)	–	–	1,262	316	1,578
Non-executive directors:					
– Yang Min	1,800	–	–	–	1,800
– Yang Jiye	600	–	–	–	600
– Mao Guosheng (resigned on 30 January 2012)	–	–	–	–	–
– Kenneth Jue Lee (appointed on 30 January 2012)	90	–	–	–	90
– Lan Fusheng (appointed on 30 January 2012)	90	–	–	–	90
Independent non-executive directors:					
– Chen Yuchuan	156	–	–	–	156
– Wang Ping	188	–	–	–	188
– Johnson Fu	203	–	–	–	203
– Wang Anjian (appointed on 30 January 2012)	90	–	–	–	90
	3,217	325	5,577	773	9,892

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

14. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (continued)

	For the year ended 31 December 2011				
	Directors' fees RMB'000	Retirement benefit scheme contributions RMB'000	Salary, wages and other allowance RMB'000	Performance incentive payments RMB'000	Total RMB'000
Executive directors:					
– Pan Guocheng	–	–	3,000	900	3,900
– Zheng Xuezhi	–	111	484	479	1,074
– Lu Zengxiang	–	75	311	326	712
– Xia Zhuo	–	82	346	401	829
– Huang Jinfu	–	86	518	561	1,165
Non-executive directors:					
– Yang Min	1,800	–	–	–	1,800
– Yang Jiye	600	–	–	–	600
– Mao Guosheng	–	–	–	–	–
Independent non-executive directors:					
– Chen Yuchuan	39	–	–	–	39
– Wang Ping	39	–	–	–	39
– Johnson Fu	172	–	–	–	172
	2,650	354	4,659	2,667	10,330

Mr Pan Guocheng is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

The performance related payment is mainly determined on the basis of the Group's and individual performance for each of years ended 31 December 2012 and 2011.

In the year ended 31 December 2012, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any remuneration in the year ended 31 December 2012.

15. EMPLOYEES' EMOLUMENTS

During the year, the five highest paid individuals included four directors (2011: five directors), details of whose emoluments are set out in Note 14. The emoluments of the remaining one (2011: nil) highest paid individual were as follows:

	Salaries and other benefits RMB'000	**Share-based payments** RMB'000	**Retirements benefits scheme contributions** RMB'000	**Total** RMB'000
2012	**757**	**–**	**162**	**919**
2011	–	–	–	–

Their emoluments were within the following bands:

	2012 No. of employees	2011 No. of employees
HK$1,000,001 to HK$1,500,000	**1**	–

For the year ended 31 December 2012, no emoluments were paid by the Group to the above five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

In 2012, there are 6 senior management in the Company, 2 senior management have remuneration and benefits between RMB500 thousand and RMB1,000 thousand, 2 senior management have remuneration and benefits between RMB1,000 thousand and RMB1,500 thousand, 1 senior management has remuneration and benefits between RMB1,500 thousand and RMB2,000 thousand and 1 senior management has remuneration and benefits between RMB3,000 thousand and RMB3,500 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

16. DIVIDENDS

	2012 **RMB'000**	2011 RMB'000 (Restated)
Dividends recognised as distribution during the year:		
2011 Final – RMB2.1 cents (2011: nil) per share	**38,430**	–

The final dividend of RMB2.0 cents per share in respect of the year ended 31 December 2012 (total: RMB36,600,000) (2011: final dividend of RMB2.1 cents per share in respect of the year ended 31 December 2011 (total: RMB38,430,000)) has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

17. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year attributable to owners of the Company of RMB361,342,000 (2011: RMB452,765,000) and the weighted average number of 1,830,000,000 shares (2011: 1,584,082,192 shares). The weighted average number of ordinary shares for the purpose of basic earnings per share for the year ended 31 December 2011 have been retrospectively adjusted for the Group Reorganisation and assuming that the Group Reorganisation had been in effective at 1 January 2011, and has been adjusted for the effect of 1,499,000,000 shares issued pursuant to the capitalisation issue as disclosed in note 33.

Diluted earnings per share presented is the same as basic earnings per share as the Company did not have dilutive potential ordinary shares in issue in both 2012 and 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

18. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Other equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2011 (restated)	81,855	152,891	4,709	126,454	49,088	414,997
Additions	7,637	17,632	4,521	43,165	216,169	289,124
Transfer	18,001	21,225	–	–	(39,226)	–
Disposals	–	(1,928)	(11)	(1,133)	–	(3,072)
At 31 December 2011 (restated)	107,493	189,820	9,219	168,486	226,031	701,049
Acquisitions of a subsidiary (Note 34)	4,381	12,639	–	190	226	17,436
Additions	9,459	18,808	2,283	42,215	326,403	399,168
Transfer	144,606	4,626	265	13,432	(162,929)	–
Disposals	(1,920)	(6,167)	(729)	(19,390)	–	(28,206)
At 31 December 2012	264,019	219,726	11,038	204,933	389,731	1,089,447
ACCUMULATED DEPRECIATION						
At 1 January 2011 (restated)	21,766	67,227	2,162	55,858	–	147,013
Provided for the year	4,365	16,116	1,453	24,564	–	46,498
Elimination on disposals	–	(1,596)	(7)	(556)	–	(2,159)
At 31 December 2011 (restated)	26,131	81,747	3,608	79,866	–	191,352
Provided for the year	6,172	21,137	2,418	33,023	–	62,750
Elimination on disposals	(1,229)	(5,684)	(685)	(18,379)	–	(25,977)
At 31 December 2012	31,074	97,200	5,341	94,510	–	228,125
CARRYING VALUES						
At 1 January 2011 (restated)	60,089	85,664	2,547	70,596	49,088	267,984
At 31 December 2011 (restated)	81,362	108,073	5,611	88,620	226,031	509,697
At 31 December 2012	232,945	122,526	5,697	110,423	389,731	861,322

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

18. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group is in the process of applying for the title certificates for certain properties with carrying amount of RMB186,648,000 as at 31 December 2012 (2011: RMB33,242,000).

The above items of property, plant and equipment, after taking into account their estimated residual value, are depreciated on a straight-line basis within the following period:

Buildings	3 to 20 years
Plant and machinery	3 to 10 years
Other equipment	3 to 5 years
Motor vehicles	3 to 6 years

19. INTANGIBLE ASSETS

	Software RMB'000	Mining rights RMB'000	Exploration and evaluation assets RMB'000	Total RMB'000
COST				
At 1 January 2011 (restated)	1,638	380,282	–	381,920
Addition	1,090	31,700	–	32,790
At 31 December 2011 (restated)	2,728	411,982	–	414,710
Addition	1,198	–	24,129	25,327
At 31 December 2012	3,926	411,982	24,129	440,037
AMORTISATION				
At 1 January 2011 (restated)	445	75,806	–	76,251
Amortisation for the year	444	21,871	–	22,315
At 31 December 2011 (restated)	889	97,677	–	98,566
Amortisation for the year	828	22,451	–	23,279
At 31 December 2012	1,717	120,128	–	121,845
CARRYING VALUES				
At 1 January 2011 (restated)	1,193	304,476	–	305,669
At 31 December 2011 (restated)	1,839	314,305	–	316,144
At 31 December 2012	2,209	291,854	24,129	318,192

The above intangible assets have definite useful lives. Software is amortised on a straight-line basis over five years; 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 units of production method.

As at 31 December 2012, the Company has pledged mining rights of having a net book value of approximately RMB254,514,000 (2011: RMB251,655,000) to secure the bank borrowings of RMB300,000,000 (2011: RMB200,000,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

20. PREPAID LEASE PAYMENTS

	31/12/2012 RMB'000	31/12/2011 RMB'000 (Restated)	1/1/2011 RMB'000 (Restated)
Analysed for the reporting purpose as:			
Current portion	**47,026**	25,302	152,436
Non-current portion	**348,455**	282,641	23,883
	395,481	307,943	176,319

The prepaid lease payments were amortised over the benefit periods from 5 to 50 years. Amount of RMB298,048,000 (31 December 2011: RMB221,232,000; 1 January 2011: RMB140,889,000), represented the pre-paid rental to various farmers and no land certificates for these pre-paid rental have been obtained.

As at 31 December 2012, the Company has pledged prepaid lease payments with the carrying amount of RMB15,668,000 (2011: RMB15,999,000) have been pledged to secure the advance from customer of RMB60,000,000 (Note 28).

21. DEFERRED TAXATION

The following are the major deferred tax assets recognised and movements thereon during the current and prior years:

	Allowance for bad debt RMB'000	**Accelerated accounting depreciation** RMB'000	**Accrued expenses** RMB'000	**Total** RMB'000
At 1 January 2011 (restated)	448	1,735	1,464	3,647
Credit to profit or loss	–	1,976	1,841	3,817
At 31 December 2011 (restated)	448	3,711	3,305	7,464
Distribution of assets/liabilities of Shangma Mining (Note 35)	–	(510)	(169)	(679)
(Charge) credit to profit or loss	–	(406)	(2,227)	(2,633)
At 31 December 2012	448	2,795	909	4,152

21. DEFERRED TAXATION (continued)

At the end of the reporting period, the Group has unused tax losses of RMB18,051,000 (31 December 2011: RMB354,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB354,000 and RMB17,698,000 (31 December 2011: RMB354,000) that will expire in 2016 and 2017.

Under EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary difference attributable to accumulated profit of the PRC subsidiaries amounting to RMB820 million (2011: RMB553 million), as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

22. LOAN RECEIVABLE FROM A THIRD PARTY

The amount mainly represented advance to 撫順縣上馬鄉政府 for the purpose of reallocation of local farmers. The amount was unsecured, interest free and expected to be collected within one year.

23. INVENTORIES

	31/12/2012 **RMB'000**	31/12/2011 RMB'000 (Restated)	1/1/2011 RMB'000 (Restated)
Auxiliary materials	**35,623**	23,249	14,998
Work in progress	**26,017**	25,270	34,254
Finished goods	**30,607**	6,603	24,753
	92,247	55,122	74,005

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For the year ended 31 December 2012

24. TRADE AND OTHER RECEIVABLES

	31/12/2012 RMB'000	31/12/2011 RMB'000 (Restated)	1/1/2011 RMB'000 (Restated)
Trade receivables			
– related parties	**10,003**	6,917	56,417
– third parties	**34,264**	10,153	6,539
– bills receivables	**99,715**	216,073	41,656
	143,982	233,143	104,612
Other receivables			
– advance to suppliers	**9,957**	4,835	15,169
– prepaid listing expense	**–**	–	2,394
– interest receivable on bank deposits	**5,021**	–	–
– deposits	**20,887**	22,868	13,151
– deposit for resource tax	**182,789**	160,519	36,308
– staff advances	**2,067**	4,174	2,382
– consideration receivable from a related party on disposal of property, plant and equipment (note)	**–**	–	24,839
– others	**7,159**	12,403	6,074
	227,880	204,799	100,317
Total trade and other receivables	**371,862**	437,942	204,929

Note: The entity is a related party which is controlled by Ms. Yang Min. The amount was settled during the year ended 31 December 2011.

24. TRADE AND OTHER RECEIVABLES (continued)

The Group allows an average credit period of 7 days to its customers. Prior to 1 July 2011, the Group did not have a credit period policy to its related party customers and the related party customers normally settled trade receivables within three months. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period.

	31/12/2012 RMB'000	31/12/2011 RMB'000 (Restated)	1/1/2011 RMB'000 (Restated)
Within 7 days	**39,052**	17,070	20,295
8 days to 3 months	**5,215**	–	33,333
3 months to 1 year	**–**	–	9,266
1 year to 2 year	**–**	–	62
	44,267	17,070	62,956

In determining the recoverability of the trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The credit quality of the trade receivables that are neither past due nor impaired had not been changed during the current period.

As at 31 December 2011, the Company has pledged bills receivable with carrying amount of RMB51,250,000 to secure the bank borrowings of RMB50,000,000.

Movement in the allowance for trade receivable

	2012 RMB'000	2011 RMB'000 (Restated)
Opening and closing balance	**182**	182

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

24. TRADE AND OTHER RECEIVABLES (continued)

According to the credit period policy of the Group, the trade receivables due from third parties which has an ageing over 7 days and the trade receivables due from related parties which has an ageing over 3 months were regarded as past due. Ageing of trade receivables which are past due but not impaired is analysed as following:

	31/12/2012 RMB'000	31/12/2011 RMB'000 (Restated)	1/1/2011 RMB'000 (Restated)
8 days to 3 months	**5,215**	–	506
3 months to 1 year	**–**	–	9,266
1 year to 2 years	**–**	–	62
	5,215	–	9,834

The Group did not provide an allowance on the remaining past due receivables as there has not been a significant change in credit quality and the amounts are still considered recoverable based on the historical experience and subsequent settlement. The Group does not hold any collateral over these balances.

Movement of allowance for doubtful debts on other receivables

	2012 RMB'000	2011 RMB'000 (Restated)
Opening balance	**20,279**	23,678
Reversal	**–**	(3,399)
Distribution of assets/liabilities of Shangma Mining (Note 35)	**(18,558)**	–
Closing balance	**1,721**	20,279

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

25. LOANS RECEIVABLE FROM RELATED PARTIES

	31/12/2012	31/12/2011	1/1/2011	Maximum amount outstanding during **2012**	Maximum amount outstanding during 2011
	RMB'000	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)	(Restated)		
Hanking Industrial Group Co., Ltd. 撫順罕王實業集團有限公司	**–**	68,754	310,710	**68,754**	326,466
Fushun Hanking Mining Co., Ltd. 撫順罕王礦業有限公司	**–**	–	17,884	**–**	35,723
Fushun Hanking Department Store 撫順罕王商場有限公司	**–**	–	210	**–**	210
Fushun County Dawei Foundry 撫順縣大維鑄造廠	**–**	–	51	**–**	51
PT. Hanking Aoniu Mining Indonesia 罕王傲牛礦業(印尼)有限公司	**–**	–	27,649	**–**	27,649
Fushun Hanking Mining Metallurgy Co., Ltd. 撫順罕王冶金礦山有限公司	**–**	–	1,250	**–**	1,250
Fushun County Hailang Concentration 撫順縣海浪選礦廠	**–**	–	353	**–**	359
Fushun Fusen Mining Machinery Parts Sales Co., Ltd. 撫順富森礦山機械配件銷售有限公司	**–**	–	550	**–**	550
Fushun Hanking D.R.I. Co., Ltd. 撫順罕王直接還原鐵有限公司	**–**	107,980	–	**107,980**	107,980
Liaoning Hanking Investment Co., Ltd. 遼寧罕王投資有限公司	**–**	150,403	77,900	**150,403**	150,403
Shenyang Toyo Steel Co., Ltd. 瀋陽東洋制鋼有限公司	**–**	30,094	–	**30,094**	30,094
Shenyang Hanking Department Store 瀋陽罕王百貨有限公司	**–**	10,000	–	**10,000**	10,000
	–	367,231	436,557		

These companies are the related parties which are controlled by Ms. Yang Min. The loans were interest-free, unsecured and repayable on demand. These amounts have been settled during the years ended 31 December 2011 and 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

26. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31/12/2012 **RMB'000**	31/12/2011 RMB'000 (Restated)	1/1/2011 RMB'000 (Restated)
Listed investment at fair value	**2,941**	–	–

The listed investment represents the Group's equity interests in company listed on Australian Securities Exchange. The investment are measured at fair value at the end of the reporting period.

27. BANK BALANCES AND CASH

Bank balances and cash of the Group comprise cash and short term bank deposits with an original maturity of three months or less. The bank balances carry variable interest rates of 0.35% (2011: 0.50%) per annum.

The bank balances which are denominated in the USD and HKD, foreign currency of the respective group entities, are as follows:

	31/12/2012 **RMB'000**	31/12/2011 RMB'000 (Restated)	1/1/2011 RMB'000 (Restated)
HKD	**534**	9,719	–
USD	**22,046**	78,345	–

28. TRADE AND OTHER PAYABLES

	31/12/2012 RMB'000	31/12/2011 RMB'000 (Restated)	1/1/2011 RMB'000 (Restated)
Trade payable			
– related parties	**2,559**	7,628	18,818
– third parties	**27,113**	14,545	29,118
– bills payable	**–**	10,235	–
	29,672	32,408	47,936
Other payables			
– advance from customer (note a)	**60,000**	60,000	67,965
– other tax payables	**18,463**	38,337	18,285
– payable of acquisition of property, plant and equipment	**97,285**	43,985	14,080
– payable of acquisition of prepaid lease payment	**–**	6,440	12,500
– outsourced service payable	**17,121**	40,599	30,200
– transportation fee payable (note b)	**11,293**	7,262	21,474
– accrued expenses	**11,043**	12,091	7,048
– accrued listing expenses	**–**	8,662	–
– salary and bonus payables	**7,128**	6,755	3,701
– others	**9,347**	9,549	8,654
	261,352	266,088	231,843

Notes:

a) As at 31 December 2012, the Company has pledged prepaid lease payments of having a carrying amount of approximately RMB15,668,000 (31 December 2011: RMB15,999,000; 1 January 2011: nil) to secure the advance from a customer of RMB60,000,000 (31 December 2011: RMB60,000,000; 1 January 2011: nil). The advance is interest-free and repayable on demand.

b) Amounts of approximately RMB9,180,000 (2011: RMB6,843,000) was due to Fushun Mingyang Transportation Co., Ltd. (撫順名揚運輸有限公司) as at 31 December 2012. Ms. Yang Min has significant influence in that entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

28. TRADE AND OTHER PAYABLES

Payment terms with suppliers are mainly on credit within 90 days from the time when the goods are received from suppliers. The following is an aged analysis of trade payables based on the date of the goods received at the end of the reporting period:

	31/12/2012	31/12/2011	1/1/2011
	RMB'000	RMB'000	RMB'000
		(Restated)	(Restated)
Within 3 months	**22,866**	9,611	33,605
3 months to 1 year	**5,859**	2,403	2,876
1 year to 2 years	**747**	3,276	1,511
2 year to 3 years	**109**	6,883	9,944
Over 3 years	**91**	–	–
	29,672	22,173	47,936

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

29. BORROWINGS

	31/12/2012	31/12/2011	1/1/2011
	RMB'000	RMB'000	RMB'000
		(Restated)	(Restated)
(i) **Bank borrowings:**			
Fixed-rate bank loans-secured	**100,000**	49,943	195,000
Fixed-rate bank loans-unsecured	**300,000**	–	–
Floating-rate bank loans-secured (note)	**200,000**	250,000	280,000
Floating-rate bank loans-unsecured (note)	**200,000**	–	–
	800,000	299,943	475,000
Amount repayable:			
Due within one year (amount shown under current liabilities)	**800,000**	299,943	295,000
More than one year, but not exceeding two years (amount shown under non-current liabilities)	**–**	–	180,000
	800,000	299,943	475,000
Effective interest rates of bank borrowings	**6.78%**	6.85%	6.07%

Note: The floating-rate bank loans carry interest at 107% to 118% of the interest rate of RMB loan promulgated by the People's Bank of China in China.

The bank borrowings of RMB300,000,000 (31 December 2011: RMB200,000,000; 1 January 2011: RMB280,000,000) were secured by the mining rights with the carrying amounts of RMB254,514,000 (31 December 2011: RMB251,655,000; 1 January 2011: RMB252,238,000). In addition, the bank borrowings of RMB100,000,000 as of 31 December 2011 were also guaranteed by related parties, Hanking Industrial Group Co., Ltd. and its subsidiaries. The guarantee was released during the year ended 31 December 2012. The bank borrowings of RMB99,943,000 as of 31 December 2011 were secured by the bills receivable with carrying amount of RMB108,133,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

29. BORROWINGS (continued)

(ii) Other borrowings:

On 24 December 2010, the Company entered into a facility agreement (the "Facility Agreement", which was amended and restated on 21 January 2011 and further amended on 2 February 2011, 25 March 2011 and 24 June 2011) with certain lenders (the "Facility Lenders"). Pursuant to the Facility Agreement, the Facility Lenders made available to the Company a US$120 million term loan facility with an annual interest rate of 8% per annum. On 25 January 2011 (the "Drawdown Date"), the Company drew down the full amount of US$120 million (equivalent to RMB790,572,000) under the Facility Agreement. The Company should repay an amount equal to one-third of the then outstanding loan on the first anniversary of the Drawdown Date and all remaining amounts outstanding under the loan on the date falling 18 months from the Drawdown Date. The Company is required to repay the outstanding loan in full immediately if an initial public offering (the "IPO") (including a listing of the Company's shares on the Stock Exchange) occurs, in which case the Company must apply any IPO proceeds the Company received towards the repayment in full of the outstanding loan. As one of the conditions precedent to the provision of the loan under the Facility Agreement, and pursuant to warrant instrument A and warrant instrument B, China Hanking (BVI) Limited issued warrant A and warrant B exercisable into 12.6667% and 0.6667% of the Company's fully diluted post-listing shares on the Stock Exchange respectively to the Facility Lenders with exercise price of US$90 million. China Hanking (BVI) Limited is the entity through which Ms. Yang Min indirectly holds approximately a 58.67% equity interest in the Company. In relation to the Facility Agreement, (i) the shares of China Hanking (BVI) Limited and Bisney Success Limited, a shareholder of the Company, (ii) the shares of the Company held by China Hanking (BVI) Limited and Bisney Success Limited and (iii) all the shares of Hanking Investment, Hanking International and Hanking HK and all the equity interest of STSU had been pledged to the Facility Lenders. On 30 September 2011, the Company's shares are listed on the Stock Exchange and the loan with interest payable was repaid in full to the Facility Lender by the Company.

The Company considered the warrants granted by China Hanking (BVI) Limited to the Facility Lenders as a capital contribution made by the controlling shareholder and recorded the fair value of those warrants of RMB175,960,000 as a deemed contribution in the consolidated statement of changes in equity. The fair value of the warrants as at 25 January 2011 was based on an external valuation analysis carried out by Jones Lang LaSalle Sallmanns Limited, a qualified valuer whose address is 6th Floor, Three Pacific Place, 1 Queen's Road East, Hong Kong. The valuation analysis utilizes generally accepted valuation methodologies such as the income approach. The income approach measures the current value of the net assets of the Group by calculating the present value of its future economic benefits by discounting expected cash flows at a rate of return that compensates for the risks associated with the particular investment. As the warrant represented direct and incremental costs associated with obtaining the loan, the value of the warrants of RMB175,960,000 on the Drawdown Date together with the transaction costs of approximately RMB21,082,000 were netted off against the original loan principal. Effective interest expense of RMB239,426,000 (including the coupon interest expense of US$6,546,000 (equivalent to RMB42,384,000) calculated on the basis of interest rate of 8% per annum and US$120 million of the loan principal) was recognised as finance costs during the year ended 31 December 2011.

30. LOANS PAYABLE TO A NON-CONTROLLING INTEREST OF A SUBSIDIARY

The amounts of RMB6,052,000 as at 31 December 2012 were unsecured and repayable on demand. The interest rates were ranged from 12% to 18% per annum.

31. LOANS PAYABLE TO RELATED PARTIES

	31/12/2012 RMB'000	31/12/2011 RMB'000 (Restated)	1/1/2011 RMB'000 (Restated)
Hanking Industrial Group Co., Ltd. 撫順罕王實業集團有限公司 (note a)	**–**	–	5,000
Fushun Fusen Mining Machinery Parts Sales Co., Ltd. 撫順富森礦山機械配件銷售有限公司 (note a)	**–**	312	–
Shenyang Toyo Steel Co., Ltd. 瀋陽東洋制鋼有限公司 (note a)	**–**	–	30
Fushun Jingjia Iron Mine 撫順景佳鐵礦 (note a)	**–**	–	2,899
Fushun Hanking Mining Co., Ltd. 撫順罕王礦業有限公司 (note a)	**–**	1,937	–
Liaoning Hanking Mining Development Co., Ltd. 遼寧罕王礦業發展有限公司 (note a)	**–**	263,586	67,719
Dalian Huaren Trading Co., Ltd. 大連華仁貿易有限公司 (note a)	**–**	53,921	–
Fushun Hanking Shangzhangdang Mining Co., Ltd. 撫順縣罕王上章黨礦業有限公司 (note a)	**–**	–	3,000
Ms. Yang Min (note b)	**–**	–	618
Other individuals (note b)	**–**	–	1,719
	–	319,444	81,297

Notes:

(a) These companies are related parties which are controlled by Ms. Yang Min. These loans were interest-free, unsecured and repayable on demand and have been settled during the years ended 31 December 2011 and 2012, respectively.

(b) These individuals are the relative of Ms. Yang Min or the key management members of the Company. The loans were interest-free, unsecured and repayable on demand. These amounts have been settled during the year ended 31 December 2011.

32. CONSIDERATION PAYABLE

As at 31 December 2012, consideration payable of RMB85,788,000 represented the remaining balance of consideration payable to Shenyang Toyo Steel Company Limited arising from the acquisition of 100% equity of Fushun Shangma.

As at 31 December 2011, consideration payable of RMB2,350,000, represented the remaining balance of consideration payable to independent third parties arising from the acquisition of 30% non-controlling interests in Xingzhou Mining from third parties.

As at 1 January 2011, included in total consideration payable is RMB27,000,000 which represented the consideration payable to independent third parties arising from the acquisition of 30% non-controlling interests in Xingzhou Mining from third parties. The remaining RMB4,000,000 as at 1 January 2011 represented the consideration payable to Hanking Industrial Group Co., Ltd. arising from the acquisition of 25% equity interests in STSU from Hanking Industrial Group Co., Ltd.

33. SHARE CAPITAL/PAID-IN CAPITAL

Share capital/paid-in capital of the Group at 1 January 2011 represented the combined paid-in capital of the Company, Aoniu Mining and STSU attributable to the ultimate controlling parties (Ms. Yang Min and Mr. Yang Jiye).

The amount as at 31 December 2012 and 2011 represented the then issued share capital of the Company. Details of movement of share capital of the Company are as follow:

	Number of shares		**Share capital**	
	2012	2011	**2012**	2011
	'000	'000	**RMB'000**	RMB'000
Ordinary shares of HK$0.1 each				
Authorised				
At 1 January	**10,000,000**	3,900	**N/A**	N/A
Increase on 16 June 2011	**–**	9,996,100	**N/A**	N/A
At 31 December	**10,000,000**	10,000,000	**N/A**	N/A
Issued				
At 1 January	**1,830,000**	1,000	**149,137**	–
Issue by capitalisation of the share premium account relating to capitalisation issue	**–**	1,499,000	**–**	122,229
New issue of shares by way of initial public offering	**–**	330,000	**–**	26,908
At 31 December	**1,830,000**	1,830,000	**149,137**	149,137

33. SHARE CAPITAL/PAID-IN CAPITAL (continued)

On 16 June 2011, pursuant to the resolutions in writing passed by the shareholders of the Company, the increase of the authorised share capital of the Company from HK$390,000 divided into 3,900,000 shares of a nominal or par value of HK$0.10 each to HK$1,000,000,000 divided into 10,000,000,000 shares of a nominal or par value of HK$0.10 each by the creation of 9,996,100,000 shares, which shall rank pari passu in all respects with the shares in issue as at the date of this resolution, was approved.

Pursuant to the resolutions in writing of the shareholders of the Company passed on 16 September 2011, conditional on the share premium account of the Company being credited as a result of the issue of the offer shares by the Company pursuant to the initial public offering of shares of the Company and subject to the IPO price, the sum of HK$149,900,000 be capitalised and be applied in paying up in full at par 1,499,000,000 shares, each of which was allotted and issued to the shareholders of the Company.

In connection with the Company's initial public offering, 330,000,000 shares of HK$0.10 each were issued at a price of HK$2.51 per share for a total cash proceeds of approximately HK$828,300,000 (equivalent to RMB675,396,000). Dealings in these shares on the Main Board of the Stock Exchange commenced on 30 September 2011.

All shares in issue rank pari passu in all respects.

34. ACQUISITION OF A SUBSIDIARY

On 30 November 2012, Aoniu Mining injected RMB13,240,000 to the registered capital of Yingkou Xinwang Alloy Furnace Co., Ltd. ("Yingkou Xinwang"), represented the 55% equity interest of enlarged net assets of Yingkou Xinwang. The acquisition has been accounted for acquisition of assets as Yingkou Xinwang as it was not considered as a business at the date of acquisition. The details of assets and liabilities of Yingkou Xinwang on acquisition date are as following:

	RMB'000
Property, plant and equipment	17,436
Inventories	13,476
Other receivables	7,172
Bank balances and cash	7,090
Loans payable from shareholders	(6,052)
Other payables	(15,051)
Net assets acquired	24,071
Less: non-controlling interests	(10,831)
Total cash consideration paid	13,240
Net cash out flow arising on acquisition	6,150

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

35. DISTRIBUTION OF ASSETS/LIABILITIES OF SHANGMA MINING

On 31 May 2012, the mining operations of Shangma Mining and its related assets and liabilities were transferred to Fushun Shangma with a consideration of RMB212,458,000. At the same time, certain non-core assets and liabilities of Shangma Mining had been retained by Shangma Mining which is held by Mr. Yang Jiye and were treated as a distribution in species to the equity owners. The details of these assets and liabilities retained as at 31 May 2012 are as following:

	RMB'000
Other receivables	14,500
Loans receivable from related parties	51,080
Consideration receivable from Fushun Shangma	212,458
Bank balances and cash	1,550
Tax recoverable	15,685
Deferred tax assets	679
Other payables	(72,565)
Borrowings	(49,997)
Net assets retained by Shangma Mining	173,390
Net cash outflow on deemed distribution	1,550
Consideration payable settled by Fushun Shangma during the year ended 31 December 2012	212,458,000
Total	214,008,000

36. CAPITAL COMMITMENTS

	2012 RMB'000	2011 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**138,848**	34,254

37. OPERATING LEASES

The Group as lessee

	2012 **RMB'000**	2011 RMB'000
Minimum lease payments paid under operating leases during the year:		
– Premises	**6,757**	–

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2012 **RMB'000**	2011 RMB'000
Within one year	**1,548**	–
In the second to fifth years inclusive	**2,819**	–
	4,367	–

38. RETIREMENT BENEFIT PLANS

The employees of the Group in the PRC are members of a state-managed retirement benefits scheme operated by the PRC government. The Group is required to contribute a specified percentage of its payroll costs to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions under the scheme.

The amounts of contributions made by the Group in respect of the retirement benefit scheme are disclosed in Note 12.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

39. RELATED PARTY TRANSACTIONS

During the year, save as disclosed elsewhere in the consolidated financial statements, the Group had the following related party transactions:

	2012	2011
	RMB'000	RMB'000
Sales of goods to:		
Fushun Hanking D.R.I. Co., Ltd. 撫順罕王直接還原鐵有限公司	**237,840**	323,152
Benxi Hanking Iron Processing Co. Ltd. 本溪罕王鐵選有限公司 (note b)	**–**	7,454
Fushun Hanking New Building Materials. Co., Ltd. 撫順罕王新型建材有限公司 (note b)	**–**	10
Fushun County Dawei Foundry 撫順縣大維鑄造廠 (note b)	**–**	65
Dalian Huaren Trade Co., Ltd. 大連華仁貿易有限公司 (note b & d)	**79,688**	178,054
Fushun Deshan Trade Co., Ltd. 撫順德山貿易有限公司 (note a)	**–**	96,101
	317,528	604,836

39. RELATED PARTY TRANSACTIONS (continued)

	2012 RMB'000	2011 RMB'000
Material purchased from:		
Shanghai Hanking International Trade Co., Ltd. 上海罕王國際貿易有限公司 (note b)	**891**	–
Fushun County Dawei Foundry 撫順縣大維鑄造廠	**1,162**	3,166
Fushun Hanking Department Store. 撫順罕王商場有限公司 (note b)	**–**	11
	2,053	3,177
Goods purchased from:		
Fushun Deshan Trade Co., Ltd. 撫順德山貿易有限公司	**–**	52,236
Processing fee paid to:		
Benxi Hanking Iron Processing Co. Ltd. 本溪罕王鐵選有限公司 (note b)	**28,468**	36,450
Rental expense paid to:		
Shenyang Shengtai Property Management Co., Ltd. 瀋陽盛泰物業管理有限公司 (note b)	**4,800**	4,800
Transportation fee paid to		
Fushun Mingyang Transport Co., Ltd. 撫順名揚運輸有限公司 (note c)	**26,030**	22,886

Note:

(a) Fushun Deshan Trade Co., Ltd. is wholly owned by Mr. He Baoxian, the father-in-law of Mr. Yang Jiye.

(b) These companies are the related parties which are controlled by Ms. Yang Min.

(c) Fushun Mingyang Transport Co., Ltd. is wholly owned by Mr. Yang Xinhuan, the nephew of Ms. Yang Min.

(d) Dalian Huaren Trade Co., Ltd. acted as an agent of Fushun Hanking D.R.I. Co., Ltd. to purchase the iron ore concentrates from STSU and purchased iron ore concentrates of RMB19,139,000 were delivered to Fushun Hanking D.R.I. Co., Ltd..

Except those disclosed in Notes 14 and 15 for directors and employees emoluments, no compensation was made to other key management personnel of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

40. SUBSIDIARIES

Details of the company's subsidiaries as at 31 December 2011 and 2012 are as follows.

Name of subsidiary	Principal activity	Place of Incorporation/ establishment and operation	Issued and fully paid up share capital/ registered capital	Proportion of ownership interest and voting power held by the Group as at 31 December 2011 %	31 December 2012 %
Directly held:					
Hanking Investment	Investment holding	The British Virgin Island ("BVI")	Ordinary shares USD1.00	100.00	100.00
Indirectly held:					
Hanking International	Investment holding	BVI	Ordinary shares USD1.00	100.00	100.00
Hanking HK	Investment holding	Hong Kong	Ordinary shares HK$1.00	100.00	100.00
Hanking Australia Pty Ltd	Investment holding	Australia	Ordinary shares AUD100.00	100.00	100.00
Hanking Gold Mining Pty Ltd	Investment holding	Australia	Ordinary shares AUD100.00	N/A	100.00
STSU (note a)	Investment holding	PRC	Registered and paid-in capital JPY1,507,000,000	100.00	100.00
Shenyang Yuanzheng (note b)	Sales of iron ore mining products	PRC	Registered and paid-in capital RMB5,000,000	100.00	100.00
Aoniu Mining (note b)	Sales of iron ore mining products	RPC	Registered and paid-in capital RMB100,000,000	100.00	100.00
Maogong Mining (note b)	Sales of iron ore mining products	PRC	Registered and paid-in capital RMB5,000,000	100.00	100.00
Xingzhou Mining (note b)	Sales of iron ore mining products	PRC	Registered and paid-in capital RMB2,000,000	100.00	100.00

40. SUBSIDIARIES (continued)

Name of subsidiary	Principal activity	Place of Incorporation/ establishment and operation	Issued and fully paid up share capital/ registered capital	Proportion of ownership interest and voting power held by the Group as at 31 December 2011 %	31 December 2012 %
Benxi Mining (note b)	Sales of iron ore mining products	PRC	Registered and paid-in capital RMB20,000,000	100.00	100.00
Fushun Shangma (note b)	Sales of iron ore mining products	PRC	Registered and paid-in capital RMB5,000,000	66.72	100.00
Shangma Mining (note b)	Sales of iron ore mining products	PRC	Registered and paid-in capital RMB5,000,000	100.00	N/A
Yingkou xinwang (note b)	Sales of iron ore mining products	PRC	Registered and paid-in capital RMB11,110,000	N/A	55.00

Notes:

(a) Wholly-owned foreign enterprise.

(b) Private owned enterprise with limited liability.

41. SUBSEQUENT EVENTS

Subsequent to 31 December 2012, the following significant event took place:

(a) On 8 January 2013, the Company announced that its wholly-owned Australian subsidiary, Hanking Gold Mining Pty Ltd., entered into an agreement with St Barbara Limited, a company listed on the Australian Securities Exchange with stock code of SBM, to acquire the assets of Southern Cross Operations with a consideration of 22.5 million Australian dollars.

The acquisition was approved by the Foreign Investment Review Board of Australia on 14 February 2013.

(b) The Company announced that on 20 December 2012, the Company, entered into the equity transfer agreement with Evergreen Mining Limited, an indirectly wholly-owned subsidiary of Hanking Industrial Group Co., Ltd., which are related parties controlled by Ms. Yang Min, pursuant to which the Company has agreed to acquire, and Evergreen Mining Limited has agreed to sell, an aggregate of 70% equity interest in Northeastern Lion Limited for a total consideration of approximately RMB311.8 million.

Upon completion of the acquisition, Northeastern Lion Limited will become a non-wholly-owned subsidiary of the Company. The transaction was approved by the shareholders of the Company on 4 March 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

For the year ended 31 December 2012

42. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	31/12/2012	31/12/2011
	RMB'000	RMB'000
Investment in a subsidiary and amounts due from subsidiaries (note)	**524,493**	502,089
Property, plant and equipment	**11**	–
Bank balances and cash	**22,808**	83,736
Interest receivable	**16,928**	21,893
Total assets	**564,240**	607,718
Trade and other payables	**2,982**	8,261
Total liabilities	**2,982**	8,261
Share capital (see note 33)	**149,137**	149,137
Reserves	**412,121**	450,320
Total equity	**561,258**	599,457

Note: As of 31 December 2012 and 2011, the Company had investment of one ordinary share of USD$1 each in Hanking Investment.

42. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Movement in reserve

	Share capital	Special reserve	Share premium and retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011	–	–	–	–
Shareholder's contribution	–	175,960	–	175,960
Issue by capitalisation of the share premium account relating to capitalisation issue	122,229	–	(122,229)	–
New issue of shares by way of initial public offering	26,908	–	648,488	675,396
Transaction costs attributable to issue of new shares	–	–	(30,722)	(30,722)
Loss and total comprehensive income for the year	–	–	(221,177)	(221,177)
At 31 December 2011	149,137	175,960	274,360	599,457
Profit and total comprehensive income for the year	–	–	231	231
Dividends	–	–	(38,430)	(38,430)
At 31 December 2012	**149,137**	**175,960**	**236,161**	**561,258**

DEFINITIONS

"Aoniu HK"	Hanking Aoniu Investment (Hong Kong) Company Limited, a limited liability company incorporated in Hong Kong on 8 January 2010. It's a wholly-owned subsidiary of Hanking Group
"Aoniu Mine"	located at Hou'an Town, Fushun City, an iron mine operated through Aoniu Mining, a subsidiary of the Company
"Aoniu Mining"	Fushun Hanking Aoniu Mining Limited (撫順罕王傲牛礦業股份有限公司), a limited liability company established in the PRC and a wholly-owned subsidiary of our Company
"Articles of Association"	the articles of association approved by the Company at the general meeting held on 16 September 2011, effective as from the time when the trading of the Company's shares commenced on the Stock Exchange of Hong Kong Limited and as amended from time to time
"Benxi Iron Processing"	Benxi Hanking Iron Processing Co., Ltd. (本溪罕王鐵選有限公司), a company established in the PRC
"Benxi Mine"	located at Benxi City, an iron mine operated through Benxi Mining, a subsidiary of the Company
"Benxi Mining"	Benxi Hanking Mining Co., Ltd. (本溪罕王礦業有限公司), a limited liability company established in the PRC and a wholly-owned subsidiary of our Company
"Board"	the board of Directors of the Company
"China" or "PRC"	the People's Republic of China. Unless the context requires, references in this annual report to the PRC or China do not include Hong Kong, Macau Special Administrative Region and Taiwan
"City Globe"	City Globe Limited, a limited liability company incorporated in Hong Kong and who holds 75% equity interest in KP
"Companies Ordinance"	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong (as amended from time to time)
"the Company" or "our Company" or "we"	China Hanking Holdings Limited
"Controlling Shareholders"	The Controlling Shareholders of the Company, namely Mr. Yang, Ms. Yang, China Hanking (BVI) Limited, Bisney Success Limited and Best Excellence Limited
"Dawei Casting"	Fushun County Dawei Casting Factory (撫順縣大維鑄造廠), a company established in the PRC and wholly-owned by Ms. Yang Min
"Denway Development"	Denway Development Limited, a limited liability company incorporated in Hong Kong and who holds 75% equity interest in KS and KKU
"Directors"	the directors of the Company

DEFINITIONS *(CONTINUED)*

"Evergreen Mining"	Evergreen Mining Limited, a limited liability company incorporated in the BVI on 23 November 2012, an indirectly wholly-owned subsidiary of Hanking Group
"Fushun Hanking D.R.I."	Fushun Hanking D.R.I. Co., Ltd. (撫順罕王直接還原鐵有限公司), a limited liability company established in the PRC
"Fushun Shangma"	Fushun Hanking Shangma Mining Company Limited, a company established in the PRC with limited liability
"the Group"	China Hanking Holdings Limited and its subsidiaries
"Hanking Group"	Hanking Group Co., Limited (罕王實業集團有限公司), a company established in the PRC on 4 April 1996, whose shares are held by Ms. Yang Min (60.67%) and Mr. Yang Jiye (28.29%) and other individuals. Hanking Group is a holding company and is controlled by the Controlling Shareholders
"Harvest Globe"	Harvest Globe Limited, a limited liability company established in Hong Kong, a non wholly-owned subsidiary of Denway Development
"HK$" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Indicated Resource"	An Indicated Resource is one which has been sampled by drill holes or other sampling procedures at locations too widely spaced to ensure continuity, but close enough to give a reasonable indication of continuity and where geoscientific data are known with a reasonable level of reliability
"Inferred Resource"	An Inferred Resource is one where geoscientific evidence from drill holes or other sampling procedures is such that continuity cannot be predicted with confidence and where geoscientific data may not be known with a reasonable level of reliability
"JORC"	Australasian Joint Ore Reserves Committee
"KKU"	PT Karyatama Konawe Utara, a company duly incorporated in Indonesia
"KP"	PT Konutara Prima, a company duly incorporated in Indonesia
"KS"	PT Konutara Sejati, a company duly incorporated in Indonesia

DEFINITIONS *(CONTINUED)*

"Latest Practicable Date"	9 April 2013, being the latest practicable date for the purpose of ascertaining certain information contained in this report prior to its publication
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Maogong Mine"	located at Shiwen Town, Fushun City, an iron mine operated through Maogong Mining, a subsidiary of the Company
"Maogong Mining"	Fushun Hanking Maogong Mining Co., Ltd. (撫順罕王毛公鐵礦有限公司), a limited liability company established in the PRC and a wholly-owned subsidiary of our Company
"Mengjia Mine"	located at Pingshan District, Benxi City, an iron mine operated through Benxi Mining, a subsidiary of the Company
"Mingcheng Transportation"	Fushun Mingcheng Transportation Co., Ltd. (撫順名城運輸有限公司), a company established in the PRC
"Northeastern Lion"	Northeastern Lion Limited, a limited liability company incorporated in the British Virgin Islands on 23 November 2012
"Prospectus"	the prospectus the Company published on 20 September 2011
"RMB"	Renminbi Yuan, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (as amended from time to time)
"Shangma Mine"	located at Fushun shangma, an iron mine operated through Fushun Shangma, a subsidiary of the Company
"Share Purchase Agreement"	On 20 December 2012, Evergreen Ming (as the seller) entered a Share Purchase Agreement with the Company and Aoniu HK (as the guarantor), in relation with the purchase of Northeast Lion
"Shengtai Property"	Shenyang Shengtai Properties Management Co., Ltd (瀋陽盛泰物業管理有限公司), a company established in the PRC
"Shenyang Toyo"	Shenyang Toyo Steel Company Limited, a company established in the PRC on 3 December 1993 and a subsidiary of Hanking Group
"the 12th Five-Year Plan"	the Twelfth Five-Year Plan for National Economic and Social Development of the People's Republic of China
"US$" or "US dollars"	United States dollars, the lawful currency of the United States
"Xingzhou Mine"	located at Dongzhou District, Fushun City, an iron mine operated through Xingzhou Mining, a subsidiary of the Company
"Xingzhou Mining"	Fushun Xingzhou Mining Limited (撫順興洲礦業有限公司), a limited liability company established in the PRC and a wholly-owned subsidiary of our Company