恒實礦業
HENGSHI MINING

# 恒實礦業投資有限公司
# HENGSHI MINING INVESTMENTS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1370

## ANNUAL REPORT **2013**

# CONTENTS

# Corporate Information

Hengshi Mining Investments Limited (the "Company") was initially incorporated in the British Virgin Islands under the laws of the BVI on 14 January 2011 and redomiciled to the Cayman Islands on 23 May 2013. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") on 28 November 2013. As at 31 December 2013, the Company has issued 1,507,843,000 shares in total, of which 382,843,000 shares are traded on the Main Board in Hong Kong, accounting for 25.4% of the total number of shares.

The Company and its subsidiaries (together the "Group") are principally engaged in the exploration, mining, processing and trading of iron ore products and major products include iron ores, preliminary concentrates and iron ore concentrates. The Group owns and operates four mines in Hebei Province, which has the largest steel production and iron ore consumption volumes in China. As at 31 December 2013, the Group had approximately 395.8 Mt of indicated resources, approximately 322.4 Mt of probable reserves and approximately 223.7 Mt of inferred resources of iron ores in aggregate. Leveraging on the experienced and solid management team, leading production cost in the market, prime location and the local consolidated principal status, the Group will bring sustainable and fruitful returns to the shareholders.

## DIRECTORS

### EXECUTIVE DIRECTORS

Mr. Li Yanjun *(Chairman)*
Mr. Leung Hongying Li Ziwei
Mr. Xia Guoan *(CEO)*
Mr. Sun Jianhua *(CFO)*
Mr. Huang Kai
Mr. Tu Quanping

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ge Xinjian
Mr. Meng Likun
Mr. Kong Chi Mo

## AUDIT COMMITTEE

Mr. Ge Xinjian *(Chairman)*
Mr. Meng Likun
Mr. Kong Chi Mo

## NOMINATION COMMITTEE

Mr. Li Yanjun *(Chairman)*
Mr. Meng Likun
Mr. Kong Chi Mo

## REMUNERATION COMMITTEE

Mr. Meng Likun *(Chairman)*
Mr. Leung Hongying Li Ziwei
Mr. Ge Xinjian

## AUTHORIZED REPRESENTATIVES

Mr. Li Yanjun
Ms. Kwong Yin Ping, Yvonne

## JOINT COMPANY SECRETARIES

Mr. Meng Ziheng
Ms. Kwong Yin Ping, Yvonne

## AUDITORS

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central
Hong Kong

## HONG KONG LEGAL ADVISOR

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

## COMPLIANCE ADVISOR

Somerley Capital Limited
20/F China Building
29 Queen's Road Central
Hong Kong

## HEAD OFFICE IN THE PRC

No. 91 Guangping Avenue
Laiyuan County
Baoding City 074300
Hebei Province
PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

18/F, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

## PRINCIPAL SHARE REGISTRAR IN THE CAYMAN ISLANDS

Maples Fund Services (Cayman) Limited
P.O. Box 1093
Boundary Hall, Cricket Square
Grand Cayman
KY1-1102
Cayman Islands

## AUTHORIZED NAME OF THE COMPANY (CHINESE)

恒實礦業投資有限公司

## AUTHORIZED NAME OF THE COMPANY (ENGLISH)

Hengshi Mining Investments Limited

## HONG KONG SHARE REGISTRAR

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

## STOCK CODE

01370

## INVESTORS' ENQUIRY

Website: www.hengshimining.com
E-Mail: ir@hengshimining.com

## REGISTERED OFFICE

P.O. Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

## SHARE INFORMATION

Board lot size: 1,000

## FINANCIAL CALENDAR

From 1 January to 31 December

# Highlights of Financial Results

The summary of our operating results, assets and liabilities, cash flows and key financial ratios is set out as follows:

## RESULTS

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2013** | 2012 | 2011 | 2010 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 |
| Turnover | **1,286,078** | 581,573 | 773,127 | 364,576 |
| Cost of sales | **(575,255)** | (393,149) | (351,054) | (198,251) |
| Gross profit | **710,823** | 188,424 | 422,073 | 166,325 |
| Distribution costs | **(4,739)** | (1,920) | (7,354) | (7,533) |
| Administrative expenses | **(107,519)** | (101,538) | (103,604) | (38,348) |
| Net finance costs | **(26,294)** | (7,506) | (3,843) | (3,091) |
| Profit before taxation | **572,271** | 77,460 | 307,272 | 117,353 |
| Income tax | **(146,659)** | (22,666) | (85,282) | (30,418) |
| Profit for the year | **425,612** | 54,794 | 221,990 | 86,935 |
| Other comprehensive income for the year | **(5,597)** | – | – | – |
| Total comprehensive income for the year | **420,015** | 54,794 | 221,990 | 86,935 |
| Profit attributable to: | | | | |
| Equity shareholders of the Company | **397,513** | 48,450 | 162,510 | 94,887 |
| Non-controlling interests | **28,099** | 6,344 | 59,480 | (7,952) |
| Total comprehensive income attributable to: | | | | |
| Equity shareholders of the Company | **391,916** | 48,450 | 162,510 | 94,887 |
| Non-controlling interests | **28,099** | 6,344 | 59,480 | (7,952) |
| Earnings per share | | | | |
| Basic and diluted (RMB) | **0.34** | 0.04 | 0.14 | 0.08 |

## ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

| | As at 31 December | | | |
|---|---|---|---|---|
| | **2013** | 2012 | 2011 | 2010 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 |
| Current assets | **1,112,446** | 222,526 | 202,333 | 224,274 |
| Non-current assets | **1,241,119** | 823,636 | 476,850 | 227,511 |
| Current liabilities | **309,654** | 747,569 | 445,043 | 248,551 |
| Non-current liabilities | **531,138** | 134,263 | 44,604 | 42,555 |
| Total equity | **1,512,773** | 164,330 | 189,536 | 160,679 |
| Equity attributable to equity shareholders of the Company | **1,459,079** | 138,735 | 131,759 | 143,631 |
| Non-controlling interests | **53,694** | 25,595 | 57,777 | 17,048 |

## CONSOLIDATED CASH FLOW STATEMENT

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2013** | 2012 | 2011 | 2010 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 |
| Net cash flow generated from operating activities | **109,549** | 277,306 | 538,414 | 34,958 |
| Net cash flow used in investing activities | **(337,036)** | (216,478) | (276,585) | (111,601) |
| Net cash flow generated from/(used in) financing activities | **1,197,997** | (80,000) | (243,527) | 97,841 |

## SELECTED FINANCIAL RATIOS

| | For the year ended 31 December/as at 31 December | | | |
|---|---|---|---|---|
| | **2013** | 2012 | 2011 | 2010 |
| Gross profit margin | **55.27%** | 32.40% | 54.59% | 45.62% |
| Net profit margin | **33.09%** | 9.42% | 28.71% | 23.85% |
| Gearing ratio | **35.72%** | 84.29% | 72.09% | 64.43% |
| Return on total assets *(Note)* | **35.21%** | 9.85% | 55.02% | 26.66% |

*Note:* Return on total assets for a given year is calculated as profit before net finance costs and income tax for that year divided by the average of opening and closing total asset balances.

# Chairman's Statement

Dear Shareholders,

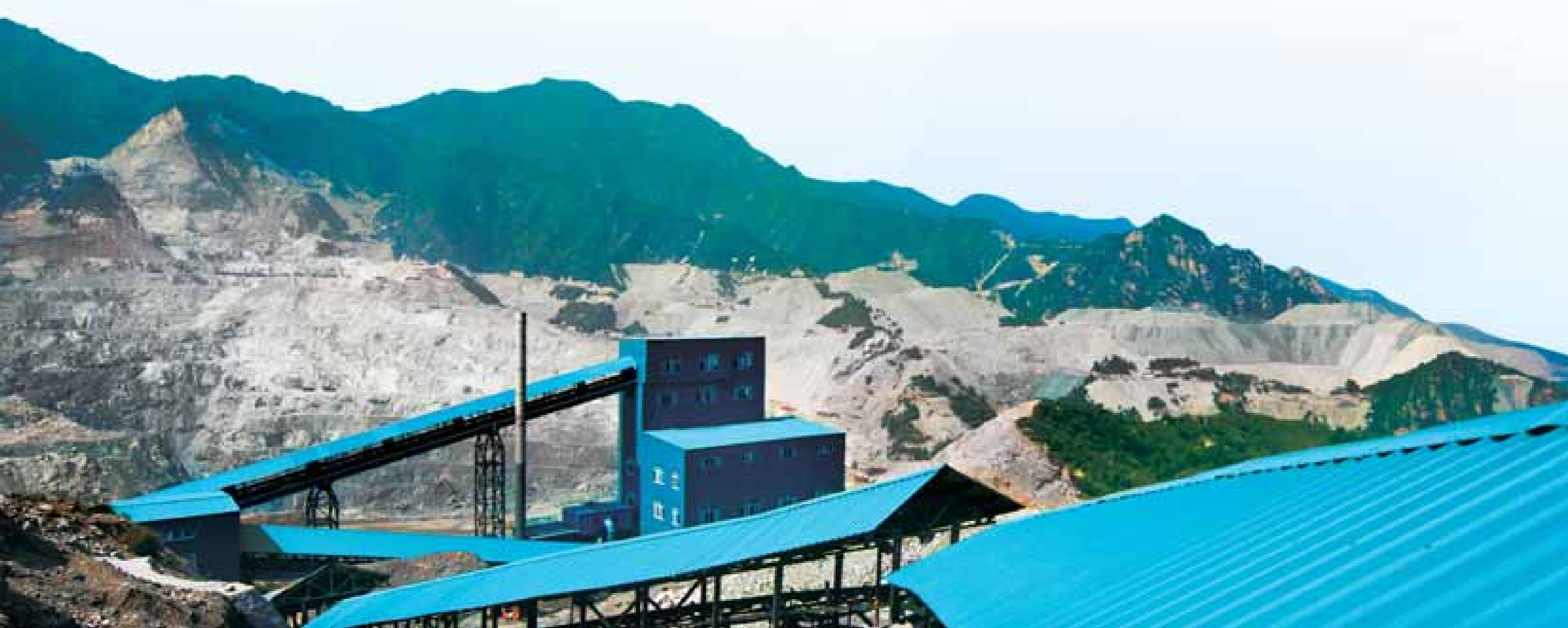
On behalf of the board of directors (the "Board") of Hengshi Mining Investments Co., Ltd. ("Hengshi" or the "Company"), I am pleased to present the report of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2013 (the "Year") and extend our gratitude to the shareholders of the Company (the "Shareholders").

## ANNUAL REVIEW

2013 was a year of continuous and overall slowdown in the global economy. Economic growth remained sluggish as a result of the slack pace of global economic recovery. Amid the severe global macro-economic condition, Hengshi overcame a number of difficulties and captured market opportunities, thus successfully listed on the Hong Kong Stock Exchange on 28 November 2013. Our strong growth in results and satisfactory financial and operating performance indicated that we were making steady progress towards the goal of being "the leading iron ore producer in China".

For the year ended 31 December 2013, the Group recorded sales volume of iron ores, preliminary concentrates and iron ore concentrates of approximately 2,101 kt, 553 kt and 884 kt respectively, representing an increase of approximately 106.2%, 51.1% and 137.6% respectively over the same period last year. The turnover and gross profit for the year were approximately RMB1,286.1 million and RMB710.8 million respectively, representing an increase of approximately 121.1% and 277.6% over that of 2012. The profit attributable to equity shareholders of the Company amounted to approximately RMB397.5 million, and basic earnings per share were approximately RMB0.34, representing an increase of 720.5% and 750.0% over 2012.

The Group adhered to adopting a variety of measures simultaneously in terms of internal operation and management in order to continuously consolidate our core competitiveness and enhance the internal corporate value. By implementing numerous infrastructure and technical renovation works, the Company significantly improved its capacities. Meanwhile, we promoted benchmarking management and reduced production costs in an active and effective manner. We reinforced safety management and assessment as well as promoted the enforcement of production safety, governance and education campaigns in an active manner, eventually avoided serious injuries or fatalities throughout the year. Furthermore, the Group has adopted a wide range of environmental protection measures, with an aim to reducing the environmental impact arising from production and promoting eco and environmentally-friendly mining construction.



## FUTURE OUTLOOK

In 2014, the Group will continue to observe the strategy that solely focuses on the expansion of iron ore business. The Group will emphasize on the development theory of "rapid expansion with low costs" during our production and operation. Firstly, we will enhance the production capacity and scale of the existing mines, improve industrial techniques, optimize management models, strengthen management and lower production costs. Secondly, we will carry out consolidation and exploration works in surrounding mines by fully leveraging on our local consolidation principal status in order to lay a solid foundation for further expansion in future capacity. Thirdly, we will commence external development, target at the surrounding core regions in terms of iron ore demands, actively explore the quality mines with low costs by leveraging on the corporate strengths and seek merger and acquisition opportunities.

Looking ahead, we will adhere to our core corporate value, keep strengthening the cost and management advantage of the Company and continue to develop, thus creating greater value for the Shareholders and striving to be the leading iron ore producer in China.

## APPRECIATION

Amid the difficulties and challenges in 2013, the Group still maintained relatively rapid development through the concerted efforts and selfless commitments of our staff. On behalf of the Board, I hereby wish to express my heartfelt appreciation to the management and all staff of the Group for their contribution and devotion over the last year, and extend my sincere gratitude to all Shareholders, intermediaries and business partners for their support and trust in the Company.

**Li Yanjun**
*Chairman of the Board*

19 March 2014

# MANAGEMENT DISCUSSION AND ANALYSIS

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group was officially listed on the Hong Kong Stock Exchange on 28 November 2013. It is the first time the Group publishes a result report after its listing in Hong Kong. The Group is primarily engaged in mining of iron ores, processing of ores and manufacturing and sales of iron ore concentrates. The Group owns and operates four iron ore mines, namely Gufen Mine, in respect of which Laiyuan County Xinxin Mining Ltd ("Xinxin Mining", our wholly owned subsidiary) has one mining license, Wang'ergou Mine and Shuanmazhuang Mine, in respect of which Laiyuan County Jingyuancheng Mining Ltd ("Jingyuancheng Mining", our wholly owned subsidiary) has two mining licenses, and Zhijiazhuang Mine, in respect of which Laiyuan County Jiheng Mining Ltd ("Jiheng Mining", owned as to 90% by us) has one mining license. All of our subsidiaries are located in Hebei Province, the province with the largest steel production capacity and iron ore consumption volumes in China.

### Development Strategies

The Group will adhere to its core strategy of iron ore development, aiming at showing its development concept of "low cost, fast expansion." Through the expansion of production capacities of self-owned mines, the integration of surrounding mines, as well as merger and acquisition and reorganization in core iron ore demand regions, continuous development, and strive to be the leading mining group in China.

### Growth of Significant Project and Production Capacities

In order to meet the production expansion plan of the Group, we plan to steadily increase our mining and processing capacities across all of our mines.

*Increase mining capacity through on-going slope correction and stripping engineering*

The Group's target is to increase our mining capacity from 10.4 Mtpa in 2013 to 21.4 Mtpa by the end of 2015 (based on JORC Code compliant reserves with a cut-off grade of 8%). In order to meet our planned mining capacity, our estimated total investment for related slope correction and stripping engineering projects is approximately RMB346.4 million. In 2013, the Group's annual mining capacity was increased from 10.4 Mtpa to 13.2 Mtpa, and has invested RMB165.8 million in the relevant projects.

According to the Feasibility Study on the Construction Project of Laiyuan Aowei Mining Investment Co., Limited (Xinxin Mining, Jingyuancheng Mining and Laiyuan County Jiheng Mining Ltd) ("FS Report") compiled by Sinosteel Ma'anshan Engineering Investigations and Design Co., Ltd in December 2012, the designed stripping engineering project at Zhijiazhuang Mine was completed in 2013. The stripping engineering of Gufen Mine, Wang'ergou Mine and Shuanmazhuang Mine will continue until the end of 2015, to ensue that the mining capacity of mines would reach its designed capacity.

The following table illustrates the growth of mining capacity for various mines during the period when such stripping engineering was executed:

| | Existing capacity (kt/p.a.) (As at 31 December 2013) | Planned capacity (kt/p.a.) (As at 31 December 2014) | Planned capacity (kt/p.a.) (As at 31 December 2015) |
|---|---|---|---|
| **Mining capacity** | | | |
| Gufen Mine | 2,900 | 3,900 | 5,000 |
| Wang'ergou Mine and Shuanmazhuang Mine | 8,000 | 11,000 | 14,000 |
| Zhijiazhuang Mine | 2,300 | 2,400 | 2,400 |
| **Total** | 13,200 | 17,300 | 21,400 |

*Expand processing capacity by technical renovation and construction of new processing plants*

For XinXin Mining, the technical renovation works for dry processing and wet processing plants have been completed in 2013.

For Jingyuancheng Mining, the new wet processing plant with a processing capacity of 2.4 Mtpa has been put into operations in March 2013. In 2014, a new dry processing plant with a processing capacity of 8.0 Mtpa will be constructed, and technical renovation will be made to the existing processing plant to elevate production capacity. In 2015, a new wet processing plant with a processing capacity of 1.2 Mtpa will be constructed.

For Jiheng Mining, the new dry processing plant of a processing capacity of 2.5 Mtpa has been put into operations in January 2013. Technical renovation and upgrade of the old dry processing plant has been completed in the third quarter. In 2014, a new wet processing plant with a processing capacity of 1.6 Mtpa and auxiliary tailings pond will be constructed.

The following table illustrates the growth of processing capacity derived from such technical renovation and construction plans:

| | Existing capacity (kt/p.a.) | Planned capacity (kt/p.a.) | |
|---|---|---|---|
| | (As at 31 December 2013) | (As at 31 December 2014) | (As at 31 December 2015) |
| **Dry processing capacity** | | | |
| Gufen Mine | 5,750 | 5,750 | 5,750 |
| Wang'ergou Mine and Shuanmazhuang Mine | 9,600 | 17,600 | 17,600 |
| Zhijiazhuang Mine | 4,200 | 4,200 | 4,200 |
| **Total** | 19,550 | 27,550 | 27,550 |
| **Wet processing capacity** | | | |
| Gufen Mine | 1,600 | 1,600 | 1,600 |
| Wang'ergou Mine and Shuanmazhuang Mine | 2,400 | 3,500 | 4,700 |
| Zhijiazhuang Mine | N/A | 1,600 | 1,600 |
| **Total** | 4,000 | 6,700 | 7,900 |

### Significant Financing

In May 2013, a maximum mortgage agreement was entered into between the Group and China Construction Bank Corporation Rongcheng Sub-branch. Pursuant to such mortgage agreement, a bank credit facility of RMB220.0 million of two-year was secured by the mining license owned by Jiheng Mining. In June and July 2013, the Group has entered into borrowing contracts with China Construction Bank Corporation Rongcheng Sub-branch and utilized such credit agreements to the extent of RMB101.6 million and RMB98.4 million through secured bank loans, respectively, each with a lending period of two years.

In September 2013, the Group borrowed and utilized three entrusted loans with (i) Hebei Jinhai Industry Group Co., Ltd. (河北津海實業集團有限公司) as an entrusted lender and China Construction Bank Corporation Baoding Branch as the entrustee lender; (ii) Baoding Aosen Clothing Making Co., Ltd. (保定澳森製衣有限公司) as an entrusted lender and China CITIC Bank Co., Ltd. Shijiazhuang Branch as the entrustee lender; and (iii) Hebei Fuye Property Development Co., Ltd. (河北福業房地產開發有限公司) as an entrusted lender and China Construction Bank Corporation Baoding Branch as the entrustee lender, respectively, for an aggregate amount of RMB190.0 million. In December 2013, the Group fully repaid the entrusted loan of RMB80.0 million due to Hebei Jinhai Industry Group Co., Ltd 河北津海實業集團有限公司 through operating cash flows.

## MARKET OVERVIEW

In the past ten years, the demand for steel in China has continued to grow drastically driven by the urbanization and the construction of infrastructures. Being one of the key raw materials for steel refining, the demand for iron ores in China has shown the strongest growth trend.

According to the National Bureau of Statistics of China, the output of crude ores in China amounted to 779.0 Mt in 2013, representing an increase of 7.6% over last year. Despite an increase in the steel production and demand in iron ore in 2013, the continuous pervasion of smog in winter in Northern China and the excess supply in the steel market made the Chinese government endeavour to solve the problems of air pollution and excess supply. The Chinese government introduced a number of policies to eliminate outdated steel production capacity and strictly restrict the operation of additional capacity in 2013.

According to the information provided by China Iron and Steel Association, the steel demand in China is expected to maintain its upward trend in 2014 as a result of the continuous urbanization and the subsequent steady increase in demand. It is expected that the crude ore output in China would reach 810.0 Mt in 2014, representing an increase of 4% over the previous year.

In the meantime, according to the statistics provided by the National Bureau of Statistics of China, iron ore imports for the year amounted to 819.3 Mt, representing a year-on-year increase of 10.2%.

In the face of the market environment that domestic demand slows down and foreign supply continues to boost, the Group will enhance production management and sales by leveraging on (i) lower cash operating costs of business units; (ii) premium and high-graded iron ore concentrates; (iii) flexible sales strategy and nearby major customers; and (iv) strategic advantages such as larger production scale with steady supply, to maintain its competitiveness.

## OPERATION REVIEW

### Production

The following table sets out the production of iron ores, preliminary concentrates and iron ore concentrates by the Group in 2013:

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2013**<br>*Output (Kt)* | **2012**<br>*Output (Kt)* | **Change** |
| Iron ores | **10,022** | 3,804 | 163.46% |
| Preliminary concentrates | **4,081** | 2,194 | 86.01% |
| Iron ore concentrates | **852** | 393 | 116.79% |

In 2013, the Group continued to focus on capacity expansion and cost control by optimizing transportation of mining area, reducing transportation costs as well as strictly monitoring the quality of outsourced projects, thus remarkably increased the operating efficiency of our mines.

## Stripping activities

*Gufen Mine*

Gufen Mine, which is owned and operated by our wholly owned subsidiary, Xinxin Mining, is located in Shuibao Village, Laiyuan County. The area covered by the mining right for Gufen Mine is 1.3821 sq.km.

According to the feasibility study on Gufen Mine, the mine will carry out a three-year infrastructure and stripping project from 2013 to 2015, in order to increase mining capacity. The total investment is expected to be approximately RMB132.8 million. In 2013, Xinxin Mining has already invested approximately RMB53.4 million.

*Wang'ergou Mine and Shuanmazhuang Mine*

Wang'ergou Mine and Shuanmazhuang Mine are both wholly owned and operated by our wholly owned subsidiary, Jingyuancheng Mining. Wang'ergou Mine and Shuanmazhuang Mine are located in Zoumayi Village, Laiyuan County. The area covered by the mining right for Wang'ergou Mine is 1.5287 sq.km. The area covered by the mining right for Shuanmazhuang Mine is 2.1871 sq.km.

According to the feasibility study on Wang'ergou Mine and Shuanmazhuang Mine, the mines will carry out a three-year infrastructure and stripping project from 2013 to 2015, in order to increase mining capacity. The total investment is expected to be approximately RMB161.7 million. In 2013, Jingyuancheng Mining has already invested approximately RMB58.4 million.

*Zhijiazhuang Mine*

Zhijiazhuang Mine, which is wholly owned and operated by Jiheng Mining, a 90% owned subsidiary of the Group with the remaining 10% equity interest owned by an independent third party, Laiyuan County Construction and Investment Co., Ltd, is located in Yangjiazhuang Village, Laiyuan County. The mining rights of Zhijiazhuang Mine cover an area of 0.3337 sq.km.

According to the feasibility study on Zhijiazhuang Mine, the mine will carry out a one-year infrastructure and stripping projects in 2013, in order to increase mining capacity. The total investment is expected to be approximately RMB51.9 million. In 2013, Jiheng Mining has completed related infrastructure and stripping project.

### Resources/reserves

During the periods between July to September 2011 and June to July 2012, Baoding Institute of Geological and Prospecting Engineering (the "BIGPE") finished the exploration of Gufen Mine, Wang'ergou Mine, Shuanmazhuang Mine and Zhijiazhuang Mine under the supervision of SRK Consulting China Limited.

The estimation of resources covered 150 trenches and 207 drill holes, among which 65 trenches and 71 drill holes were from Gufen Mine, 33 trenches and 47 drill holes from Wang'ergou Mine, 31 trenches and 33 drill holes from Shuanmazhuang Mine and 21 trenches and 56 drill holes from Zhijiazhuang Mine. 5,262, 6,629, 4,087 and 3,636 samples were extracted from Gufen Mine, Wang'ergou Mine, Shuanmazhuang Mine and Zhijiazhuang Mine respectively, with an exploitation track of 10,251, 13,456, 8,073 and 6,607 meters respectively. TFe and mFe analysis were carried out in respect of each of the samples.

No exploration-related expense was incurred in 2013 as no exploration work was carried out in respect of the mines in the year.

As at the end of 2013, the Group owned approximately 395.8 Mt of JORC Code (2012) Compliant iron ore indicated resources:

| Company | Mine | Cut-off grade | Indicated mineral resource | | | Inferred mineral resource | | |
|---|---|---|---|---|---|---|---|---|
| | | *(TFe%)* | *Tonne (1000t)* | *TFe (%)* | *mFe (%)* | *Tonne (1000t)* | *TFe (%)* | *mFe (%)* |
| Xinxin Mining | Gufen Mine | 8 | 157,312 | 13.23 | 6.51 | 101,100 | 12.44 | 6.03 |
| Jingyuancheng Mining | Wang'ergou Mine | 8 | 66,127 | 13.77 | 6.36 | 39,250 | 13.03 | 5.85 |
| | Shuanmazhuang Mine | 8 | 153,010 | 13.99 | 5.73 | 73,935 | 12.81 | 4.92 |
| Jiheng Mining | Zhijiazhuang Mine | 8 | 19,367 | 27.26 | 26.22 | 9,426 | 27.58 | 25.82 |
| Total | | 8 | 395,816 | 14.30 | 7.15 | 223,711 | 13.30 | 6.46 |

As at the end of 2013, the Group owned approximately 322.4 Mt of JORC Code (2012) Compliant iron ore reserves.

| Company | Mine | Exploration Approach | Type | Ore reserves *(Kt)* | *TFe (%)* | *mFe (%)* |
|---|---|---|---|---|---|---|
| Xinxin Mining | Gufen | Open-pit | Probable | 55,390 | 12.81 | 6.3 |
| | | Underground | Probable (Graded 12% or above) | 58,750 | 15.35 | 8.5 |
| | | Total | Probable | 114,140 | 14.11 | 7.43 |
| Jingyuancheng Mining | Wang'ergou | Open-pit | Probable | 43,657 | 13.38 | 6.24 |
| | | Underground | Probable (Graded 12% or above) | 18,077 | 15.87 | 8.5 |
| | | Total | Probable | 61,734 | 14.11 | 6.9 |
| Jingyuancheng Mining | Shuanmazhuang | Open-pit | Probable | 91,619 | 13.56 | 5.55 |
| | | Underground | Probable (Graded 12% or above) | 35,723 | 16 | 7.11 |
| | | Total | Probable | 127,342 | 14.24 | 5.99 |
| Jiheng Mining | Zhijiazhuang | Open-pit | Probable | 19,206 | 27 | 25.78 |
| | | Total | Probable | 19,206 | 27 | 25.78 |
| **Total** | | Open-pit | Probable | 209,872 | 14.55 | 7.74 |
| | | Underground | Probable (Graded 12% or above) | 112,550 | 15.64 | 8.06 |
| | | Total | Probable | 322,422 | 14.93 | 7.85 |

## Transportation

On our mining sites, we engage third-party transportation teams to deliver the iron ores and weakly mineralized wall rocks to on-site dry processing plants and preliminary concentrates to our wet processing plants. All the on-site dry processing plants of our mines are within 0.5 km of the corresponding mining site, and the associated wet processing plants for Gufen Mine, Wang'ergou Mine and Shuanmazhuang Mine are within approximately 6 to 11 km of their respective mining sites.

Our iron ore concentrates are primarily sold to steel mills in Hebei Province. A majority of our current iron ore concentrates customers are in Hebei Province and within 500 km of our mines. Under most of the sales agreements with these customers, it is our customers' responsibility to arrange the transportation of the products by contracting with third-party transportation companies.

Our iron ores and preliminary concentrates are sold to local iron ore processing companies. According to the sales agreements with these customers, the customer is responsible for arranging the collection of the products at our mining sites or processing plants themselves.

## Strict control on land costs

As the economy develops and urbanization speeds up, land resources become increasingly scarce, resulting in a rapid surge in land costs. At the same time, mining activities demand for abundant land resources. In order to reduce the pressure of production and operating costs, the Group has completed the application for the quota and rights in relation to the use of relevant land for mining purpose for the coming years in 2013 through scientific mining planning. In view of rising land costs and the higher proportion of land costs to production costs, our Group reserved its land for future production in advance based on reasonable planning, which significantly lowered the total operating costs of mines, thus strengthening risk prevention capability against market fluctuations.

## Sales

In 2013, the Group achieved the sale of 2,101 Kt of iron ores, 553 Kt of preliminary concentrates and 884 Kt of iron ore concentrates. The Group's iron ores and preliminary concentrates were mainly sold to nearby wet processing plants while iron ore concentrates products were sold mainly to steel mills in central and southern Hebei, maximizing the advantages on low transportation costs.

Meanwhile, the Group further developed new customers and reduced the sales generated from our top five largest customers. In 2013, the sales generated from our top five largest customers accounted for 49.5% (2012: 65.4%) of our revenue. Sales to our largest customer represented 24.9% (2012: 44.6%) of the annual total sales of the Group.

## Safety and environmental protection

During the year, our Group facilitated infrastructure engineering and enhanced on-site control. It launched "Safety Production Year" event to promote safety production law enforcement, governance and education campaigns in an active manner, innovate safety management, implement safety and environmental responsibility in various levels and prevent major personal casualties accident throughout the year.

Our Group adopted a wide range of environmental protection measures, strived to reduce the environmental impact arising from production and devoted to promoting eco and environmental friendly green mining construction. As for reclamation, the Group conducted soil restoration and tree planning activities. In relation to recycled economy, processing plants and tailings dam maximized the recovery and recycling of drainage. In connection to noise reduction, the Group adopted closed processing and additional sound insulation equipment to reduce noise. As for energy saving and emission reduction, the Group applied new technologies and techniques to minimize the consumption of electricity and other materials.

### Employees and remuneration policy

As of 31 December 2013, the Group had a total of 1,259 employees. During the year, the total staff cost of the Group was approximately RMB69.3 million (2012: RMB59.4 million). The Group determined the staff remuneration based on their performance, experience and prevailing market practice. Other benefits provided to employees included retirement benefit scheme, medical benefit scheme and housing provident scheme.

The employees of the Company have to participate in the pension scheme managed and operated by local municipal government. Subject to the approval of the local municipal government, the Company has to make a 12% contribution to the pension scheme according to the average salary of the employees, so as to provide funding to their pension.

### Staff training scheme

Our employees enroll in regular training courses to improve their skills and professional knowledge and be updated on new developments. We also develop our own employee training programs tailored specifically to iron ore mining and processing operations. We employ dedicated trainers to provide the training programs at our mining sites. To leverage on accumulated operational expertise and special knowledge in our network, we frequently guide new recruits at our mining exploration sites.

## FINANCIAL REVIEW

### Revenue

In 2013, the revenue of our Group was approximately RMB1,286.1 million, up by RMB704.5 million as compared to last year, representing a year-on-year increase of 121.1%, which was primarily due to our trial production and commercial production officially commenced in 2013, with a significant increase in the sales volume of various products.

Sales volume, average price and revenue by products:

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2013** | 2012 | **Growth** |
| **Sales volume** *(Kt)* | | | |
| Iron ores | **2,101** | 1,019 | 106.18% |
| Preliminary concentrates | **553** | 366 | 51.09% |
| Iron ore concentrates | **884** | 372 | 137.63% |
| **Unit price** *(RMB)* | | | |
| Iron ores | **223** | 190 | 17.37% |
| Preliminary concentrates | **210** | 195 | 10.53% |
| Iron ore concentrates | **794** | 847 | –6.25% |
| **Total revenue generated** *(RMB in thousand)* | | | |
| Iron ores | **467,503** | 193,856 | 141.16% |
| Preliminary concentrates | **116,029** | 71,445 | 62.40% |
| Iron ore concentrates | **702,093** | 315,180 | 122.76% |
| Others | **453** | 1,092 | –58.52% |
| Total | **1,286,078** | 581,573 | 121.14% |

## Product mix

Since April 2013, Xinxin Mining has been engaged by Jiheng Mining for the processing, manufacturing and selling of iron ore concentrates. At the same time, Xinxin Mining and Jingyuancheng Mining have commenced trial production and the growth of iron ore concentrates increased remarkably. Revenue generated from the sale of iron ore concentrates therefore contributed a greater proportion to the total income.

## Cost of sales

The Group's cost of sales mainly included costs associated with hired labour, public utilities, transportation, mining and processing operations. Changes in production output and the costs of mining, transporting and processing iron ore products are key factors that affect the Group's operating costs. During the year of 2013, the Group's cost of sales was approximately RMB575.3 million, up by RMB182.1 million as compared to last year, representing a year-on-year increase of 46.3%, which was primarily due to a significant increase in the sales volume in 2013 than that of 2012.

## Gross profit and gross profit margin

The Group's gross profit was approximately RMB710.8 million in 2013, up by RMB522.4 million as compared to last year, representing a year-on-year increase of 277.6%. The Group's gross profit margin in 2013 soared to 55.3% from 32.4% of 2012, primarily due to the increase in selling price arising from the higher grade of iron ores and preliminary concentrates as well as the effective cost control of the Group.

## Sales and distribution expenses

Our Group's sales and distribution expenses in 2013 were approximately RMB4.7 million, up by RMB2.82 million as compared to last year, representing a year-on-year increase of 146.8%. Sales and distribution expenses included the loading expense of vehicles arising from the sales of iron ores and preliminary concentrates by Jiheng Mining.

## Administrative expenses

The Group's administrative expenses in 2013 were RMB107.5 million, up by RMB6.0 million as compared to last year, representing a year-on-year increase of 5.9%. Administrative expenses included salaries paid to the management and administrative staff of the Group, depreciation and amortization, rental and office expenses, business development expenses, professional consulting and services expenses, taxation expenses and others, among which the one-off effect arising from listing expenses amounted to RMB30.5 million.

## Finance costs

The Group's finance costs in 2013 were approximately RMB26.6 million, up by RMB19.0 million as compared to last year, representing a year-on-year increase of 248.7%. Finance costs included interest expenses of bank borrowings, discounted interest expenses, interest expenses of other finance loans. Such increase was primarily due to the increase in finance costs arising from increased bank borrowings by RMB200.0 million and entrusted loans by RMB190.0 million in 2013 as the Company had no bank borrowings in 2012.

## Income tax expenses

The Group's income tax expenses in 2013 amounted to approximately RMB146.7 million, up by RMB124.0 million as compared to last year, representing a year-on-year increase of 547.0%. Income tax expenses included the income tax calculated by the total revenue of each subsidiary at the income tax rate of 25%. For the year ended 31 December 2012 and 2013, the Group's effective tax rates were 29.3% and 25.6% respectively. Our effective tax rates were higher than the statutory PRC enterprise income tax rate of 25%, which is primarily due to losses incurred by certain non-operating subsidiaries of the Group that were not deductible for tax purposes for the relevant periods in accordance with the relevant PRC laws and regulations.

### Profit for the year

The Group's profit for the year of 2013 amounted to approximately RMB425.6 million, up by RMB370.8 million as compared to last year, representing a year-on-year increase of 676.8%. The Group's net profit ratio during the reporting period was 33.1% while that of 2012 was 9.4%. The increase was primarily due to the fact the Group was mainly engaged in tasks such as resources integration and slope correction before 2013. Upon the completion of consolidation, the Company commenced trial production and commercial production and the production and sales volume of the Group increased, resulting in a greater increase in income in 2013 as compared with that of 2012. Besides, the growth in sales income was higher than that of the cost of sales, resulting in a greater increase in net profit in 2013 as compared with that of 2012.

### Property, plant and equipment and inventories

Our Group's property, plant and equipment amounted to RMB450.7 million as at the end of 2013, with an increase of RMB179.4 million as compared to last year, representing a yearly increase of 66.1%. Such increase was primarily due to the fact that the Group's constructions and programs were converted to fixed assets and the Group purchased new equipments.

The inventories of the Group as at the end of 2013 was approximately RMB41.2 million, with a decrease of RMB118.8 million as compared to 2012, representing a yearly decrease of 74.2%. Such decrease was primarily due to a substantial decrease in the inventory of weakly mineralized wall rocks of Jiheng Mining with the increase in operation consumption.

### Trade and other receivables, and payables and other payables

Our Group's trade receivables as at the end of 2013 were approximately RMB55.0 million, representing an increase of RMB42.8 million. Such increase was primarily due to: (i) the notes receivable of RMB29.7 million in 2013; (ii) the increase of RMB13.1 million in trade receivables in 2013 over that of 2012 was primarily due to the fact that Jiheng Mining sold iron ores/preliminary concentrates to its customers who were mainly local processing plants with good reputation and agreed credit term.

Our Group's other receivables as at the end of 2013 were approximately RMB28.7 million, representing an increase of RMB1.4 million over last year. Such increase was primarily due to a slight increase in prepayments to suppliers as compared with 2012.

Our Group's trade payables as at the end of 2013 were approximately RMB53.0 million, down by RMB5.9 million as compared to last year, representing a year-on-year decrease of 10.0%. Such decrease was primarily due to the decrease in payables as the Company strengthened its repayment of trade payables.

Our Group's other payables as at the end of 2013 were approximately RMB148.5 million, down by RMB30.3 million as compared to last year, representing a year-on-year decrease of 17.0%. Such decrease was primarily due to the combined effects arising from the decrease in sales prepayment as well as the decrease in equipment payables regarding the fixed asset investment of the Company.

## Cash flow analysis

Summary of our Group's consolidated cash flow statement in 2013 is set out as follows:

| | For the year ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | ***RMB'000*** | *RMB'000* |
| Net cash flow generated from operating activities | **109,549** | 277,306 |
| Net cash flow used in investing activities | **(337,036)** | (216,478) |
| Net cash flow generated from/(used in) financing activities | **1,197,997** | (80,000) |
| Net increase/(decrease) in cash and cash equivalents | **970,510** | (19,172) |
| Cash and cash equivalents at beginning of year | **22,668** | 41,840 |
| Effect of foreign exchange rate changes on cash and cash equivalents | **(5,616)** | – |
| Cash and cash equivalents at end of year | **987,562** | 22,668 |

The net cash inflow from operating activities in 2013 was RMB109.5 million, which was mainly attributable to the net amount calculated by the cash and cash equivalents from the ordinary sales of the Company less the expenses on cash and cash equivalents from sales and the entire repayment of the advances from Hebei Aowei Industrial Group Co., Ltd.

The net cash outflow from investing activities in 2013 was approximately RMB337.0 million, which primarily used in exploring engineering and investments in fixed assets.

The net cash inflow from financing activities in 2013 was approximately RMB1,198.0 million, which was mainly attributable to the IPO proceeds from the listing of the Company.

## Bank Borrowings

At the end of 2013, the Group's bank borrowings were approximately RMB310.0 million (2012: nil). Other than the above or otherwise disclosed in this annual report, the Group did not have any outstanding mortgages, pledges, bonds or other loan capital (issued or agreed to be issued), bank overdrafts, borrowings, acceptance liabilities or other similar liabilities, hire purchase and finance lease commitments or any guarantees or other material contingent liabilities. In January 2014, the Group utilized the operating cash flow for early repayment of the entrusted loans of RMB110.0 million in aggregate due to Baoding Aosen Clothing Making Co., Ltd. and Hebei Fuye Property Development Co., Ltd. The Directors have confirmed that, save as disclosed above, there is no material change in the liabilities or contingent liabilities of the Group since 31 December 2013.

## Financial instruments

The Group did not issue or grant any convertible bonds, options, debentures or other similar rights in the year.

### Gearing ratio, interest rate risk and foreign currency risk

The Group's debt to total assets ratio decreased from 84.3% on 31 December 2012 to 35.7% on 31 December 2013. Debt to total assets ratio is calculated by dividing the total debts by total assets.

The Group did not have any material fair value interest rate risk. All the bank borrowings and entrusted loans of the Group were loans at fixed interest rates and there was no material interest rate risk. Meanwhile, the assets of the Group were principally measured in terms of historical cost and there was no material fair value risk. As such, the Group did not have any material fair value interest rate risk.

The business of the Group is located in China and the principal operation and transactions are carried out in RMB. The assets and liabilities of the Group are denominated in RMB. We had no hedging in respect of the exchange rate risk as the net assets and profits of the Group may be affected by the exchange rate fluctuations, and if any dividends are translated into foreign exchange, such dividends declared will also be affected.

### Material acquisitions and disposals

In 2013, the Group had not entered into any material acquisitions and disposals.

### Pledge of assets, contingent liabilities

The bank loans of the Group are secured by the mining rights of Zhijiazhuang Mine. As at 31 December 2013, the aggregate net book value of the pledged assets was RMB123.3 million.

As at 31 December 2012 and 31 December 2013, the Group had no material contingent liabilities.

### Use of proceeds from the fund raised

A total of HKD1,225.1 million (equivalent of RMB969.1 million) was raised from the listing of the Company. Expenses including commissions paid to the sponsor, underwriting fees and related professional fees amounted to RMB71.1 million approximately. The intended use of the remaining proceeds is as follows: (i) approximately 70% of the net proceeds will be used as the fund for our expansion plan; (ii) approximately 20% of the net proceeds will be used as the repayment of the bank loan due to China Construction Bank Corporation Rongcheng Sub-branch; and (iii) approximately 10% of the net proceeds will be used as working capital for general corporate purpose. As at 31 December 2013, the fund raised from the listing of the Company has not been used.

### Future outlook

In 2014, the Group will continue to abide by the core strategy that focuses on the expansion of iron ore business. The Group will emphasize on the development idea of "quick expansion with low costs" in the progress of production and operation. First, we will expand the production capacity and scale of the existing mines, enhance industrial techniques, optimize management modes, improve the management capabilities and lower the production costs. Second, we will carry out consolidation and exploration work in the surrounding mines by fully leveraging the consolidation principal status in the respective zones in order to lay a solid foundation for further expansion in the future production capacity. Third, we will implement the external exploration stragegy, aim at the surrounding the core zones in terms of the iron ore demands, actively explore the high-quality mines with low costs by leveraging the corporate strengths and commence merger and acquisition.

### Enhancing mining capabilities and processing facilities

In 2014, the Group will continue to push forward the developing engineering of the four mines as planned. In the first half of the year, we will complete the technical enhancement of the Jingyuancheng processing plant; in July, we will complete the construction of a new Jiheng Mining's wet processing plant with an annual capacity of 1.6 Mtpa. In November, we will complete the construction of Jingyuancheng Mining's third dry processing plant with an annual processing capacity of 8.0 Mtpa iron ores.

### Expanding resources and external exploration

In 2014, the Group will carry out consolidation and exploration work in the surrounding high-quality mines by fully leveraging its consolidation principal status. We will seek to accumulate the storage of iron ore resources in order to lay a solid foundation for further capacity expansion.

At the same time, the Group will actively carry out the strategy of expanding outward. Centered in Hebei Province, which was in high demand in iron ore resources, we will actively explore high-quality and low-cost mines in the surrounding provinces for merger and acquisition. First, we have to consolidate high-quality resources by fully leveraging the Group's regional brand strengths and extensive experience in consolidation and production expansion. Second, we have to choose an in-production mine with exploration and capacity expansion potential in order to guarantee to achieve the strategic target of commencing merger, acquisition and production in the same year as well as quick expansion in capacity.

### Enhancing corporate management

Further enhancement on corporate cost management is another management focus of the Group in 2014. First, we have to further expand the corporate production capacity, strengthen the level of mechanization and technical skill inputs, lower the costs with capacity and technical strengths. Second, we have to engage more talents in respect of corporate management and strengthen the technical skills, improve the corporate management level and accelerate the pace of corporate development.

### Establishment of a green mining enterprise

In 2014, the Group will be dedicated to establishing a green mining enterprise with safety production,resource-saving and recycling development. We will further raise the safety awareness of all the staffs, implement safety management and enforcement,and adopt one-vote-down system in respect of major physical injury accidents in the mines. We will set a basic target in respect of creating green ecology for the new types of mines. We will achieve green and low-carbon development by compliance with the strict environmental monitoring system and leveraging a series of specific measures, such as street sprinkling, resumption of growing green plants and tailings dewatering. We will strengthen the cultural development of the corporation for driving the sustainable development of the Group.

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2013.

## 1. PRINCIPAL ACTIVITIES

The Group is principally engaged in the iron ore mining and the production and trading of iron ore concentrates. Details of the principal subsidiaries of the Company are set out in note 17 to the consolidated financial statements.

## 2. RESULTS

The Group's profit for the year ended 31 December 2013 and the positions of the Company and the Group as at that date are set out on page 56 to 59 of this annual report.

## 3. PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group and the Company for the year ended 31 December 2013 are set out in note 13 to the consolidated financial statements.

## 4. SHARE CAPITAL

The Company was listed on the Hong Kong Stock Exchange on 28 November 2013. The Company had a share capital of HK$1,000,000 divided into 10,000,000,000 shares of HK$0.0001 each, of which 1,507,843,000 shares had been issued.

## 5. PRE-EMPTIVE RIGHTS

Pursuant to the Articles of Association of the Company and the laws of the Cayman Islands where the Company incorporated, there is no provision in relation to pre-emptive rights applicable to the Company.

## 6. RESERVES

Details of the movements in the reserves of the Group during the Year are set out in the Consolidated Statement of Changes in Equity on page 60 of this annual report and the details of reserves attributable to equity holders of the Company are set out in note 28 to the consolidated financial statements.

## 7. DIVIDENDS

The Board did not propose the distribution of a final dividend for the year ended 31 December 2013.

## 8. CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 6 June 2014 to 10 June 2014 (both days inclusive). In order to qualify for attending and voting at the 2013 Annual General Meeting of the Company, transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than 4:30 p.m. on 5 June 2014.

## 9. PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the period from the listing date to 31 December 2013, neither the Company nor its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

## 10. MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2013, the total purchase from the Company's five largest suppliers (as defined in the Listing Rules) accounted for 43.4% of the Company's total purchase during the year, of which the total purchase from the largest supplier accounted for 15.9% of the Company's total purchase during the year.

For the year ended 31 December 2013, the total sales to the Company's five largest customers accounted for 49.5% of the Company's total sales during the year, of which the sales to the largest customer accounted for 24.9% of the Company's total sales during the year.

So far as the Directors are aware, none of the Directors, their associates or Shareholders of the Company (who, to the knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the five largest suppliers or customers (as defined in the Listing Rules) during the year.

## 11. BANK BORROWINGS AND OTHER BORROWINGS

As at 31 December 2013, details of the bank borrowings and other borrowings of the Group are set out in note 23 to the consolidated financial statements.

## 12. DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth certain information in respect of the Directors and senior management of the Company as at the Listing Date and up to the date of this report.

| Name | Position in the Company | Date of Appointment | Date of Resignation |
|---|---|---|---|
| Li Yanjun | Chairman and Executive Director | 20 July 2013 | N/A |
| Leung Hongying Li Ziwei | Vice Chairman and Executive Director | 18 January 2011 | N/A |
| Xia Guoan | Executive Director and Chief Executive Officer, Director and the general manager of Aowei Mining | 20 July 2013 (being Chief Executive Officer and Executive Director of the Company)<br>March 2013 (being Director and the general manager of Aowei Mining) | N/A |
| Sun Jianhua | Executive Director and Chief Financial Officer and the head of the finance department of Aowei Mining | 20 July 2013 (being Executive Director and Chief Financial Officer of the Group)<br>April 2012 (being the head of the finance department of Aowei Mining) | N/A |
| Huang Kai | Executive Director and standing deputy general manager of Aowei Mining | 20 July 2013 (being Executive Director)<br>March 2012 (standing deputy general manager of Aowei Mining) | N/A |

| Name | Position in the Company | Date of Appointment | Date of Resignation |
|---|---|---|---|
| Tu Quanping | Executive Director, chief engineer of Aowei Mining and Director of Xinxin Mining | 20 July 2013 (being Executive Director)<br>June 2011 (chief engineer of Aowei Mining and Executive Director of Xinxin Mining) | N/A |
| Ge Xinjian | Independent Non-executive Director | 20 July 2013 | N/A |
| Meng Likun | Independent Non-executive Director | 20 July 2013 | N/A |
| Kong Chi Mo | Independent Non-executive Director | 20 July 2013 | N/A |
| Yang Qiang | Deputy general manager of Aowei Mining | 18 February 2013 | N/A |
| Gao Changquan | Head of the finance department of Aowei Mining | 18 February 2013 | N/A |
| Li Chao | Deputy general manager of Aowei Mining | 18 February 2013 | N/A |
| Chen Dong | General manager of Xinxin Mining | 3 February 2012 | N/A |
| Li Dongfeng | Director and general manager of Jiheng Mining and Director of Aowei Mining | 10 August 2010 (being Director and general manager of Jiheng Mining)<br>8 June 2011 (being Director of Aowei Mining) | N/A |
| Che Shengheng | Director and the vice chief engineer of Aowei Mining and Director of Jingyuancheng Mining | 8 June 2011 (being Director and the vice chief engineer of Aowei Mining)<br>June 2011 (being Director of Jingyuancheng Mining) | N/A |
| Jin Jiangsheng | General manager of Jingyuancheng Mining | February 2012 | N/A |

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

## 13. CHANGE OF DIRECTORS

As at 31 December 2013, there is no information relating to our Directors of the Company which is disclosable according to Rule 13.51B of the Listing Rules.

## 14. BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENT

Detailed biographies of the Directors and senior management are set out on pages 48 to 53 of this annual report.

## 15. SERVICE CONTRACTS OF THE DIRECTORS

The Company has entered into a service contract with each of the Directors. The period term of the service contract is 3 years, commencing from 28 November 2013.

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.

## 16. REMUNERATION FOR THE DIRECTORS AND TOP 5 HIGHEST PAID INDIVIDUALS

Detailed information on remuneration for the Directors and top 5 highest paid individuals of the Company is set out in notes 8 and 9 to the consolidated financial statements.

None of the Directors of the Company has agreed to waive any remuneration for the year ended 31 December 2013.

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.

## 17. DIRECTORS' INTERESTS IN CONTRACTS

For the year ended 31 December 2013, the Company has not directly or indirectly concluded contracts of significance, in which any Directors has material interests, and in which the Company is a party and which still remain valid during the year or at the end of the year.

## 18. SIGNIFICANT SUBSEQUENT EVENTS

On 31 March 2014, Laiyuan County Aowei Mining Investments Co., Ltd. ("**Aowei Mining**"), an indirect wholly-owned subsidiary of the Company, entered into the equity transfer agreement with Laiyuan County Construction and Investment Co., Ltd. ("**Laiyuan Jiantou**"), pursuant to which the Company will acquire the 10% equity interests in Laiyuan County Jiheng Mining Co., Ltd. ("**Jiheng Mining**") from Laiyuan Jiantou at a total consideration of RMB118.0 million payable to Laiyuan Jiantou. The terms of the Equity Transfer Agreement have been arrived at through arm's length negotiations between Laiyuan Jiantou and Aowei Mining. The Directors (including the independent non-executive directors) are of the view that the terms of the Equity Transfer Agreement are entered into on the basis of normal commercial terms and are fair, reasonable and in the interest of the Company and its Shareholders as a whole. The Acquisition will give Aowei Mining full control of Jiheng Mining, which will enhance the efficiency of Aowei Mining in implementing business decisions and developing strategies relating to Jiheng Mining, as well as streamline the administrative procedures of Jiheng Mining. For details of the Equity Transfer Agreement, please refer to the announcement dated 31 March 2014 of the Company.

There were no significant subsequent events occurred from 1 April 2014 to the Latest Practicable Date.

## 19. DIRECTORS' INTERESTS IN COMPETITIVE BUSINESS

As at 31 December 2013, none of the Directors and their related associates held any competitive interests in any business which the Company, either directly or indirectly or likely to compete against.

## 20. DIRECTORS' AND SENIOR MANAGEMENT'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2013, the interests or short positions of the Directors and senior management of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which were 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 were taken or deemed to have under such provisions of SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, 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, were as follows:

### (1) Interests in the Shares of the Company:

| Name of Directors and Senior Management | Capacity/Nature of Interest | Number of Shares (Long Position) | Percentage of Issued Shares |
|---|---|---|---|
| Mr. Leung Hongying Li Ziwei | Founder of a discretionary trust(2) | 1,125,000,000(L) | 74.61% |
| Mr. Li Yanjun | Interests held jointly with another person(2) | 1,125,000,000(L) | 74.61% |

*Notes:*

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

2. Mr. Leung Hongying Li Ziwei is the settler, protector and a beneficiary of the Chak Trust with Credit Suisse Trust Limited as the trustee which holds the entire issued share capital of Hengshi Holdings Limited (holding 100% issued share capital of Hengshi International Investments Limited) through Chak Limited and is the settler, protector and a beneficiary of the Seven Trust with Credit Suisse Trust Limited as the trustee which holds the entire issued share capital of Aowei International Developments Limited through Seven Limited. Pursuant to the Confirmation Letters, Mr. Leung Hongying Li Ziwei and Mr. Li Yanjun acted and will continue to act in concert to make decisions and exercise discretions in respect of the matters of the Chak Trust and the Seven Trust and exercise all voting rights attached to the shares of Hengshi International Investments Limited and Aowei International Developments Limited, respectively. Therefore, Mr. Leung Hongying Li Ziwei and Mr. Li Yanjun are deemed to be interested in the 1,091,250,000 Shares held by Hengshi International Investments Limited (which is 100% owned by Hengshi Holdings Limited) as disclosed above and the 33,750,000 Shares held by Aowei International Developments Limited.

## 21. SUBSTANTIAL SHAREHOLDERS' INTERESTS OR SHORT POSITIONS IN THE SHARES AND DEBENTURES OF THE COMPANY

As at December 31, 2013, the interests or short positions of substantial shareholders, other than the Directors or the chief executives of the Company whose interests and short positions in the shares of the Company and of its associated corporations (within the meaning of Part XV of the SFO) as set out above, had 5% or more interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be maintained by the Company under Section 336 of the SFO were as follows:

| Name of Shareholders | Capacity/Nature of Interest | Number of Shares (Long Position) | Percentage of Issued Shares |
|---|---|---|---|
| Aowei International Developments Limited | Beneficial owner(2) | 1,125,000,000(L) | 74.61% |
| Chak Limited | Interest in controlled corporation(2) | 1,125,000,000(L) | 74.61% |
| Credit SuisseTrust Limited | Trustee | 1,125,000,000(L) | 74.61% |
| Hengshi Holdings Limited | Interest in controlled corporation(2) | 1,125,000,000(L) | 74.61% |
| Hengshi International Investments Limited | Beneficial owner(2) | 1,125,000,000(L) | 74.61% |
| Seven Limited | Interest in controlled corporation(2) | 1,125,000,000(L) | 74.61% |

*Notes:*

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

2. Hengshi Holdings Limited holds 100% issued share capital of Hengshi International Investments Limited, thus Hengshi Holdings Limited is deemed to be interested in the 1,091,250,000 Shares held by Hengshi International Investments Limited. Chak Limited holds 100% issued share capital of Hengshi Holdings Limited, thus Chak Limited is deemed to be interested in the 1,091,250,000 Shares held by Hengshi International Investments Limited. Seven Limited holds 100% issued share capital of Aowei International Developments Limited, thus Seven Limited is deemed to be interested in the 33,750,000 Shares held by Aowei International Developments Limited.

   Mr. Leung Hongying Li Ziwei and Mr. Li Yanjun are the ultimate controlling shareholders of Chak Limited, Hengshi Holdings Limited, Hengshi International Investments Limited, Seven Limited and Aowei International Developments Limited. Therefore, Chak Limited, Hengshi Holdings Limited, Hengshi International Investments Limited, Seven Limited and Aowei International Developments Limited are deemed to be interested in all the 1,125,000,000 shares. Pursuant to the Confirmation Letters, Mr. Leung Hongying Li Ziwei and Mr. Li Yanjun acted and will continue to act in concert to make decisions and exercise discretions in respect of the matters of the Chak Trust and the Seven Trust and exercise all voting rights attached to the shares of Hengshi International Investments Limited and Aowei International Developments Limited, respectively.

Save as disclosed above, the Company has not been notified of any other interests or short positions in the shares or underlying shares representing 5% or more of the issued share capital of the Company as at the Latest Practicable Date.

## 22. MANAGEMENT CONTRACTS

For the year ended 31 December 2013, there was no contract entered into by the Company relating to its management and administration or subsisting during the year which was substantial to the entire or any part of the business.

## 23. CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

All of the related party transactions disclosed in note 31 to the consolidated financial statements also constitute connected transactions as defined in Chapter 14A of the Listing Rules.

During the year ended 31 December 2013, there were no continuing connected transactions entered into by the Group.

## 24. COMPLIANCE OF DEED OF NON-COMPETITION

The Company signed a deed of non-competition ("Deed of Non-Competition") with the Controlling Shareholders on 12 November 2013. Pursuant to the Deed of Non-Competition, each Controlling Shareholder has undertaken to the Company (for itself and in favour of its subsidiaries) that they will not, profitably or non-profitably, and will procure their associates (except any members of the Group) not to, directly or indirectly, either on his own or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate in or hold interests in or engage in or acquire or hold construction, development, operation or management of any business or activity which competes or may compete with the restricted business. The Controlling Shareholders have also granted us an option for new business opportunities, a pre-emptive right and an option for acquisition to acquire any potential interest in their business which competes or is likely to compete, either directly or indirectly, with the restricted business.

In accordance with the Deed of Non-Competition, the independent non-executive Directors of the Company are responsible for reviewing and considering whether exercising the option for new business opportunities, pre-emptive right and the option for acquisitions as well as entitled to conduct annual review of implementation of the Deed of Non-Competition on behalf of the Company. During the year, each controlling shareholder of the Company has made annual confirmation of compliance of Deed of Non-Competition, and the independent non-executive Directors of the Company have also reviewed the implementation of Deed of Non-Competition, and confirmed that the Controlling Shareholders have fully abided by the Deed of Non-Competition without any breach of the Deed of Non-Competition.

## 25. RETIREMENT AND EMPLOYEES' BENEFIT PLAN

Detailed information on the retirement and employees' benefit plan of the Company is provided in note 5(b) to the consolidated financial statements.

## 26. COMPLIANCE OF THE CODE ON CORPORATE GOVERNANCE PRACTICES

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. Saved as disclosed under Directors' liability insurance in the Corporate Governance Report of this annual report, the Company has fully complied with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules. Please refer to Corporate Governance Report in this annual report for details.

## 27. PUBLIC FLOAT

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

## 28. SIGNIFICANT LEGAL PROCEEDINGS

For the year ended 31 December 2013, 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 claims pending or threatened.

## 29. AUDIT COMMITTEE

The audit committee under the Board has reviewed the Company's annual results for 2013 and the financial statements for the year ended 31 December 2013.

## 30. AUDITOR

KPMG were engaged as auditors of the Company for the year ended 31 December 2013. KPMG have audited the accompanying consolidated financial statements which were prepared in accordance with International Financial Reporting Standards.

The Company has retained KPMG since the date of listing.

KPMG will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

## 31. FINANCIAL HIGHLIGHTS

The operating results, assets and liabilities highlights of the Group for the last four fiscal years are stated on page 106 of this annual report.

## 32. SIGNIFICANT CONTRACTS

Save as disclosed in the section headed "Connected Transactions" of this annual report, none of the Company or any of its subsidiaries entered into material contracts with the controlling shareholder or any of its subsidiaries other than the Group, nor was there any material contract between the Group and the controlling shareholder or any of its subsidiaries other than the Group in relation to provision of services.

## 33. FINANCIAL ASSISTANCE AND GUARANTEE TO AFFILIATED COMPANIES BY THE COMPANY

For the year ended 31 December 2013, the Company has not granted any financial assistance and guarantee to its affiliated companies.

## 34. LOAN TO AN ENTITY

For the year ended 31 December 2013, the Group has not granted any loans to an entity.

By order of the Board

**Mr. Li Yanjun**
*Chairman of the Board*

The Company has adopted the code provisions in the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. Our Directors are committed to upholding the corporate governance of our Company to ensure that formal and transparent procedures are in place to protect and maximize the interests of the Shareholders. The Code on Corporate Governance Practices sets out the principles of good corporate governance and two levels of corporate governance practices as follows:

1) code provisions which listed issuers are expected to comply with or to give reasons for deviation after due and careful consideration.

2) recommended best practices for guidance only, which listed issuers are encouraged to comply with or to give reasons for any deviation after due and careful consideration.

The Directors considered, save as disclosed below, during the period between 28 November 2013 (being the listing date) to 31 December 2013, the Company has fully complied with each of the principles and code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules and a substantial majority of the recommended best practices set forth thereunder. Upon the listing, our Company has been considering arranging the liability insurance for our Directors, while due to certain unforeseeable delays caused by procedures and formalities, such liability insurance has not been in place as at 31 December 2013. Given that the related procedures and formalities have been nearly completed as of the date of issuance of this report, the liability insurance is expected to be given to our Directors no later than May 2014.

The detailed discussions of the code provisions of the Code on Corporate Governance Practices adopted and complied with by the Company during the period are set out below.

## 1. SECURITIES TRANSACTION BY DIRECTORS AND RELEVANT EMPLOYEES

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' and relevant employees' dealings in the Company's securities. Specific enquiry has been made to all the Directors of the Company and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2013.

## 2. BOARD COMPOSITION AND PRACTICES

### 1. The Board

The Board is collectively responsible for leading and overseeing the Group's business to all the shareholders with the objective of enhancing shareholders' value.

For the period from the listing date to 31 December 2013, the Board of the Company consists of nine members as follows:

| Executive Directors | Independent non-executive Directors |
|---|---|
| Mr. Li Yanjun *(Chairman)* | Mr. Ge Xinjian |
| Mr. Leung Hongying Li Ziwei *(Vice chairman)* | Mr. Meng Likun |
| Mr. Xia Guoan | Mr. Kong Chi Mo |
| Mr. Sun Jianhua | |
| Mr. Huang Kai | |
| Mr. Tu Quanping | |

Up to the date of this report, the Board of the Company consists of nine members as follow:

| Executive Directors | Independent non-executive Directors |
|---|---|
| Mr. Li Yanjun *(Chairman)* | Mr. Ge Xinjian |
| Mr. Leung Hongying Li Ziwei *(Vice chairman)* | Mr. Meng Likun |
| Mr. Xia Guoan | Mr. Kong Chi Mo |
| Mr. Sun Jianhua | |
| Mr. Huang Kai | |
| Mr. Tu Quanping | |

Up to the date of this report, the Company has three independent non-executive Directors in total, representing one-third of the total number of Directors of the Company. The detailed information of Directors is set out in "Biographies of Directors and Senior Management" of this annual report. Mr. Leung Hongying Li Ziwei is the son of Mr. Li Yanjun. Save as the above, none of the members of the Board has connection with other members.

In accordance with the Company's Articles of Association and, at each annual general meeting of the Company, at least one-third of the Directors for the time being will retire from office by rotation but will be eligible for reelection.

During the year ended 31 December 2013, the Board met the requirements of the Listing Rules to appoint at least three independent non-executive Directors. The independent non-executive Directors of the Company consist of a fellow certified public accountant with accounting and financial management expertise, an expert with managerial experience in financial industry and an expert in processing research, designing and technology management.

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 confirmation of their independence 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. The Board considers that each of the non-executive Directors and independent non-executive Directors brings his own relevant expertise to the Board. The Company has received an annual confirmation from each independent non-executive Director of his independence pursuant to regulations.

*1.1 Board meeting*

The Board of the Company has not convened any meeting and signed any written resolutions for the period from the listing date to 31 December 2013.

The Company has adopted the provisions of the Code on Corporate Governance Practices and issues meeting notices 14 days before convening a regular Board meeting (for interim Board meetings, a reasonable notice shall be given) so that all Directors can have sufficient time and plan to attend the meeting. All meeting papers will be sent to all Directors no less than three days before a meeting is convened. Matters discussed and resolved at Board meetings will be recorded in detail and a summary of minutes will be made, and resolutions will also be filed.

1.2 *Duties performed by the Board and management*

The Board is responsible for the overall development of the Group, approving and monitoring the overall development strategy of the Group, assessing, monitoring and controlling the operation and financial performance, ensuring the Directors perform their proper duties and act in the best interests of the Group and hold discussions on various important and proper businesses of the Company in a timely manner. All Directors are entitled to include any matter that needs to be submitted to the Board for discussion in the agenda of the Board meeting. 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 discharge of duties better.

1.3 *Chairman of the Board and president*

The positions of the chairman of the Board and general manager (i.e. chief executive officer under the Listing Rules) of the Company are held by different individuals in order to ensure the independence of their respective functions and accountability and balanced distribution of power and authority between them. Mr. Li Yanjun is the chairman 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. Xia Guoan is the general manager of the Company, and responsible for daily operational activities of the Group and responsible to the Board for the overall operations of the Group.

1.4 *Appointment and re-election of Directors*

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

Each Director of the Company is appointed for a specific term of three years, and will retire from office by rotation every three years.

1.5 *Directors' training*

To ensure the Directors' contribution to the Board remains informed and relevant and help them develop and refresh their knowledge and skills, the Company had arranged trainings and provided relevant funding. The records of the training attended by the Directors are set out as follows:

| Name | Position | Training content |
|---|---|---|
| Li Yanjun | Chairman and executive Director | Compliance of listed company and corporate governance |
| Leung Hongying Li Ziwei | Vice chairman and executive Director | Compliance of listed company and corporate governance |
| Xia Guoan | Executive Director and chief executive officer | Compliance of listed company and corporate governance |
| Sun Jianhua | Executive Director and chief financial officer | Compliance of listed company and corporate governance |
| Huang Kai | Executive Director | Compliance of listed company and corporate governance |
| Tu Quanping | Executive Director | Compliance of listed company and corporate governance |
| Ge Xinjian | Independent non-executive Director | Compliance of listed company and corporate governance |
| Meng Likun | Independent non-executive Director | Compliance of listed company and corporate governance |
| Kong Chi Mo | Independent non-executive Director | Compliance of listed company and corporate governance |

1.6 *Directors' liability insurance*

Upon the listing, our Company has been considering arranging the liability insurance for our Directors, while due to certain unforeseeable delays caused by procedures and formalities, such liability insurance has not been in place as at 31 December 2013. Given that the related procedures and formalities have been nearly completed as of the date of issuance of this report, the liability insurance is expected to be given to our Directors no later than May 2014.

1.7 *Policy on diversification of the Board*

The Company believes that the diversification of the Board is beneficial for enhancing the performance of the Company. The Company established the Policy on Diversification of Members of the Board in November 2013, to ensure in setting the composition of the Board, the Company will consider the diversification of members of the Board from various aspects, including but not limited to age, cultural and educational background, professional experience, skills and knowledge. All appointments to the Board shall follow the principle of meritocracy, taking into account objectively the benefits of diversification of members of the Board when considering the candidates. The candidates of the Board are selected based on diversification, including but not limited to age, cultural and educational background, professional experience, skills and knowledge.

The nomination committee will disclose the composition of the Board annually in the Corporate Governance Report and monitor the implementation of the policy. The nomination committee will review the policy when appropriate to ensure the effectiveness of the policy. The nomination committee will discuss any amendment that may need to make and make recommendations to the Board for approval.

1.8 *Directors' remuneration policy*

Under the remuneration policy of our Company, the remuneration committee will determine the amount of remuneration payable to our Directors and the senior management, by reference to, among other things, market level of salaries paid by comparable companies, the respective responsibilities, tenure, commitment, responsibilities and performance of our Directors and the senior management.

1.9 *Training for joint company secretary*

The Company was listed on 28 November 2013. As such, Mr. Meng Ziheng, the joint company secretary of the Company, was unable to receive not less than 15 hours relevant training during the relevant period as required by Rule 3.29.

## 2. Specialized committees under the Board

On 3 November 2013, the Company established Audit Committee, remuneration committee and nomination committee to provide specialized decision support for the Board. Of which includes: for the period ended 31 December 2013, the Audit Committee is chaired by an independent non-executive Director and all committee members are independent non-executive Directors; the nomination committee is chaired by an executive Director and more than half of the committee members are independent non-executive Directors; and remuneration committee is chaired by an independent non-executive Director and more than half of the committee members are independent non-executive Directors. The Company formulated the Terms of Reference for the Audit Committee, the Terms of Reference for the Nomination Committee and the Terms of Reference for the Remuneration Committee.

*(1)* *Audit Committee*

For the period ended 31 December 2013, the members of the Audit Committee of the Company are as follows:

Independent non-executive Directors

Ge Xinjian *(Chairman)*
Meng Likun
Kong Chi Mo

The duties of the Audit Committee are as follows:

(a) to be responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditors, approve the remuneration and terms of engagement of the external auditors, and handle any questions relating to the resignation or dismissal of the external auditors;

(b) to review the Group's financial and accounting policies and practices; review with the Group's management, external auditors and internal auditors the adequacy of the Group's policies and procedures relating to internal controls (including the controls over finance, operation and compliance) and risk management, and review any statements of Directors to be contained in the annual accounts prior to submission to the Board for approval;

(c) to be familiar with the financial reporting principles and practices adopted by the Group in the preparation of financial statements;

(d) to examine the independence and objectivity of the external auditors, the effectiveness of the audit procedures and the scope of the external audit, including the letter of engagement, and discuss with the external auditors the nature and scope of the audit and reporting obligations prior to the audit. The committee shall understand the factors considered by the external auditors in their determination of the scope of audit, and consider and approve the external auditors' fees as discussed by management on an annual basis;

(e) to monitor and review the completeness of the financial statements and annual reports as well as financial accounts, interim reports and quarterly reports (if applicable) and review the material opinions in respect of the financial reporting in statements and reports, particularly on:

  (i) any changes in accounting policies and practices;

  (ii) major decisional matters;

  (iii) significant accounting adjustments resulting from audit;

  (iv) the going concern assumptions and any qualifications;

  (v) compliance with accounting and audit standards; and

  (vi) compliance with the Listing Rules and legal provisions in relation to financial reporting;

(f) in regard to (e) above:

  (i) members of the Committee shall liaise with the Board and senior management and the Committee shall meet, at least twice a year, with the external auditors; and

  (ii) the Committee shall consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the personnel responsible for the accounting and financial reporting function, compliance officer or auditors;

(g) to review draft statements before submission to the Board for approval;

(h) to assess the support obtained by the external auditors from management, including the receipt of records and data as requested, seek management's advice on the response of the external auditors to the needs of the Group, and make inquiries as to the existence of any difference in opinions between the external auditors and management resulting in the issuance of a qualified opinion report by the external auditors in respect of the Group's financial statements if no satisfactory resolution is reached;

(i) to require the external auditors to provide data on an annual basis in respect of their maintenance of independence and supervision over the compliance with policies and procedures adopted by relevant regulations, including the provision of non-audit services and the requirements for the rotation of partners and staff involved in the audit; prepare and implement the policy in respect of the non-audit services provided by the external auditor; for this purpose, 'external auditor' includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. A former partner of the Company's existing auditing firm should be prohibited from acting as a member of its Audit Committee for a period of 1 year from the date of his ceasing:

(1) to be a partner of the firm; or

(2) to have any financial interest in the firm, whichever is later.

(j) to discuss with the external auditors any recommendations arising from the audit (in the absence of management when necessary), examine draft recommendations proposed by the auditors to the management in respect of the audit (the "Management Letter") and any significant issues raised by the auditors to the management concerning accounting records, financial accounts or control systems (including management's response to each of the items);

(k) to ensure that the Board will provide a timely response to the issues raised in the external auditors' Management Letter;

(l) to review and monitor the scope, effectiveness and result of the internal audit function, ensure the coordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Group;

(m) to prohibit the engagement of the external auditors to perform non-audit services, except for tax-related services, in general circumstances and, where such engagements are necessary given the external auditors' expertise in specific areas, obtain the prior approval of the Committee; the audit committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

(n) to discuss with management on the scope of the internal control system and ensure that management has performed its duties in ensuring the effectiveness of the internal control system, including the resources required, the qualifications and experience of accounting and financial reporting personnel and the adequacy of training programs and budgets for relevant staff;

(o) to inform the Board of any major progress when fulfilling the above duties;

(p) to make recommendations to the Board for any appropriate extensions or changes in the duties of the Committee;

(q) to examine internal findings and management's response in respect of any suspicion of frauds or irregularities, failures of internal control or suspected infringement of laws, regulations and rules;

(r) to reach an agreement with the Board on the policies of the Hong Kong Stock Exchange relating to the recruitment of the external auditors' employees or former employees and monitor the application of the relevant policies; and consider whether or not the relevant recruitments would impair the judgment or independence of auditors in the audit;

The Company's audit committee formulated the procedure rules in 2013, reviewed the annual results and the internal control system and fulfilled other duties set out in the Code on Corporate Governance Practices. No meeting was convened by the Company's audit committee in 2013.

(2) *Remuneration Committee*

For the period ended 31 December 2013, the members of the Remuneration Committee of the Company are as follows:

| Executive Director | Independent Non-executive Director |
|---|---|
| Mr. Leung Hongying Li Ziwei | Mr. Meng Likun *(Chairman)*<br>Mr. Ge Xinjian |

The primary duties and authorities of Remuneration Committee are including:

a) formulating remuneration policies for submission to the Board for approval (factors to be considered in the remuneration policies shall include remuneration paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the group for directors, senior management and general staff) and implement remuneration policies determined by the Board;

b) without affecting the generality of the above:

(i) formulating guidelines for the recruitment of the Company's chief executive officer and senior management;

(ii) making recommendations to the Board on remuneration policies and structure for Directors (including the chief executive officer of the Company) and senior management and on setting up a proper and transparent procedure for the formulating of remuneration policies, and ensuring no Director or any of his/her associates shall be involved in determining his/her own remuneration;

(iii) making recommendations to the Board in respect of the remuneration packages, including non-monetary benefits, pension rights and compensation amount (including compensation for the loss of office or appointment) for individual executive Directors (including the chief executive officer of the Company) and senior management, and consulting the chairman of the Board and/or the Company's chief executive officer (whoever is appropriate) in respect of recommendations on the remuneration of the Company's chief executive officer and/or senior management;

(iv) reviewing and approving compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair, reasonable and not excessive;

(v) reviewing and approving compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise fair, reasonable and not excessive;

(vi) determining staff performance evaluation standards which should reflect the business objectives and targets of the Company;

(vii) assessing the performance of executive Directors, senior management and general staff in accordance with their respective performance standards with reference to market standards, considering annual performance bonuses for the relevant officers and staff and making recommendations to the Board;

(viii) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives;

(ix) making recommendations to the Board on the remuneration of the non-executive Directors;

(x) appointing external independent professional consultants to give assistance and/or advice to the committee on matters if necessary;

(xi) taking any action to enable the Committee to exercise the powers and functions delegated by the board of Directors; and

(xii) exercising other relevant duties and powers provided for or recommended by the Listing Rules and/or relevant applicable laws, regulations and rules that are enforceable from time to time.

During the year of 2013, the Remuneration Committee of the Company promulgated Procedure Rules, clarified the terms of reference, reviewed remuneration policies of Directors, assessed the performance of executive Directors and approved the terms of service contracts of executive Directors. For the year ended 31 December 2013, no meeting was held by the Remuneration Committee of the Company to review the remuneration components, incentives and allowances payable to Directors and senior management. The Remuneration Committee was delegated by the Board with responsibilities to determine the remuneration packages of individual executive Director and senior management. No meeting was held by the Remuneration Committee for the year ended 31 December 2013. In 2014, the Remuneration Committee will further perfect the remuneration of the Directors and senior management and the review system of the Company and follow up with the remuneration policies of the Company and the review results of staff at all levels.

*(3) Nomination Committee*

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

| Executive Director | Independent Non-executive Director |
|---|---|
| Mr. Li Yanjun *(Chairman)* | Mr. Meng Likun<br>Mr. Kong Chi Mo |

The primary duties and authorities of Nomination Committee are including:

a) formulating policies on nomination for the consideration of the Board and implementing nomination policies approved by the Board; and

b) without affecting the generality of the above:

   (i) reviewing the structure, size and diversity of the Board (including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and term of office) at least once a year and make recommendations on the implementation of the Company's corporate strategy to the Board;

   (ii) examining the selection criteria and procedures for Directors and management personnel and make recommendations to the Board;

   (iii) identifying candidates suitably qualified to become Directors and nominating them to the Board for recommendation to the shareholders by the Board; when identifying the most suitable candidate, the value of that such candidate shall be taken into account and the adequate benefits of the diversity of members of the Board shall be objectively considered. The Board and shareholders shall be provided with detailed curriculum vitae of nominated candidates so that they can make well-informed decisions;

   (iv) identifying and nominating candidates to fill casual vacancies of Directors for the approval of the Board;

   (v) reviewing and making recommendations on matters in relation to the candidates of Directors and senior management;

   (vi) assessing the independence of independent non-executive Directors, reviewing the annual confirmation submitted by independent non-executive Directors in respect of their independence and make disclosure of the findings in the "Corporate Governance Report";

   (vii) reviewing the time required by Directors in performing their responsibilities on a regular basis;

   (viii) making recommendations to the Board on matters in relation to the appointment and re-appointment of Directors and the succession planning of the Directors, especially the chairman of the Board and the chief executive officer, and the senior management;

   (ix) under suitable circumstances, reviewing the Policy on Diversification of Members of the Board, measurable objectives and the progress made when the members of the Board implement the Policy on Diversification of Members of the Board, as well as the annual disclosure of the findings in the "Corporate Governance Report";

   (x) taking any action to enable the Committee to exercise the powers and functions delegated by the Board; and

   (xi) complying with any requirements, directives and regulations that are specified by the Board, the Articles of Association of the Company or the legislation from time to time.

During the year of 2013, the Nomination Committee of the Company established procedural rules clarifying the terms of reference and reviewed the policies and procedures for the nomination and the relevant criteria for the selection and recommendation of Directors. No meeting was held by the Nomination Committee of the Company during 2013.

*(4)* *Corporate Governance Functions*

The Board developed and reviewed the Company's policies and practices on corporate governance and made recommendations; reviewed and monitored the training and continuous professional development of Directors and senior management; reviewed and monitored the Company's policies and practices in compliance with legal and regulatory requirements; developed, reviewed and monitored the code of conduct and compliance manual applicable to employees and Directors; and reviewed the Company's compliance with the Code on Corporate Governance Practices and disclosure in the Corporate Governance Report.

## 3. Remuneration of Auditors

For the year ended 31 December 2013, apart from the provisions of annual audit services, the Group's external auditors, KPMG, were also the reporting accountants of the Company in relation to listing. For the year ended 31 December 2013, the total fee paid/payable in respect of audit and non-audit services provided by the Group's external auditors is set out below:

| | RMB'000 |
|---|---|
| Annual audit services | 1,800 |
| Reporting accountants and related services in relation to listing | 4,650 |

The Audit Committee is responsible for making recommendation to the Board as to the appointment, re-appointment and removal of the external auditors, which is subject to the approval by the Board and at the general meetings of the Company by the shareholders.

## 4. Remuneration of Directors and Senior Management

A formal and transparent procedure for fixing the remuneration packages of individual Directors and Senior Management is in place. Details of the remuneration for Directors and top five persons in respect of remuneration are set out in Note 8 and Note 9 to the consolidated financial statements of the annual report. For the year ended December 31, 2013, the scope of remuneration for the Senior Management of the Company is set out below:

| Scope of remuneration (RMB'000) | Number of members of Senior Management |
|---|---|
| 0–300 | 8 |
| 300–500 | 6 |

*Note:* Numbers disclosed above includes the senior management of the Company and those who are executive Directors.

## 5. 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 2013, 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 IFRSs. In addition, the financial statements included appropriate disclosure made in accordance with the Listing Rules and the Companies Ordinance. The responsibility of the external auditors of the Company for preparing the financial statements of the Group was set out in the independent auditors' report of this annual report.

## 6. Internal Control

We have engaged an independent internal controls consultant, Protiviti, to review our internal control systems. Protiviti is a global business consulting and internal audit firm.

Protiviti performed a series of review since March 2013, focusing on various areas, including (i) supervision over entities, such as control over environment, risk assessment, information and communication, monitoring, anti-fraud procedures and IT general controls; and (ii) supervision over processes related to financial reporting, such as sales, procurement, inventory, fixed assets, payroll, financial closing and reporting, treasury and tax management.

Following its review, Protiviti identified a number of control deficiencies and weaknesses, including primarily the lack of independent non-executive Directors on the Board, absence of audit committee and remuneration committee, insufficient independence of the internal audit function as well as the lack of certain financial and business operation policies or procedures.

Since mid-March of 2013, as recommended and confirmed by Protiviti, we have taken various measures to address these internal control deficiencies and weaknesses, including the appointment of independent non-executive Directors, establishment of an audit committee and a remuneration committee and establishment of direct reporting channels between our internal auditors and the audit committee. In addition, we have enhanced our internal control procedures by updating our regulatory policies with rules governing various aspects of our business, mainly including financial management, sales management, procurement management, contract or management, fixed asset management, license/certificate management and human resources management.

In May and June 2013, Protiviti performed a follow-up review of the newly designed policies and procedures, and a walk-through of the samples (if available) after the new policies and procedures were adopted. Protiviti noted that the draft Board committee charters and disclosure management related policies, being Administrative Measures on Information Disclosure, Provisions on the Management of Inside Information Disclosure and Administrative Measures on Disclosure of Material Transactions, are pending the Board's approval, and the Internal Audit Charter and working plans are pending the Audit Committee's approval. Protiviti has reviewed these draft policies and plans pending approval and confirmed that they are in line with the Listing Rules and general practice. These draft policies and working plans were approved on 3 November 2013. Except for that, the aforementioned control deficiencies have been remedied.

The Board of the Company acknowledged its responsibility for the internal control system to safeguard Shareholders' investment and the Company's assets and reviewing its effectiveness. The Board has conducted a review of the internal control system of the Company and its subsidiaries including financial, operational, compliance and risk management by comprehensive budgeting, information reporting and performance monitoring system procedures and found it effective.

## 7. Joint Company Secretaries

Ms. Kwong Yin Ping, Yvonne, a member of The Hong Kong Institute of Chartered Secretaries, has been appointed as a joint company secretary of our Company. Her principal contact in our Company is Mr. Meng Ziheng, the other joint company secretary of our Company.

The joint company secretaries of the Company shall be responsible for ensuring good information flow among members of the Board and that Board policies and procedures are followed. The company secretaries make recommendations on governance matters to the Board through the chairman and the chief executive officer, and shall also arrange for induction training and professional development of Directors.

Mr. Meng Ziheng who is familiar with the activities of the Company has past management experience within our Group and thorough understanding of the internal administration and business operations of our Group. Therefore, he is appointed as one of the joint company secretaries by our Company. Ms. Kwong Yin Ping, Yvonne one of the joint company secretaries of our Company, is responsible for assisting Mr. Meng Ziheng in discharging the duties of a company secretary of our Company. Ms. Kwong Yin Ping is currently a vice president of SW Corporate Services Group Limited, a professional services provider specializing in corporate services. Ms. Kwong Yin Ping is qualified to act as our company secretary as required in Rule 3.28 of the Listing Rules.

For biographical details of Mr. Meng Ziheng and Ms. Kwong Yin Ping, see "Biographies of Directors and Senior Management – Joint Company Secretaries."

## 8. General Meetings

During the reporting period, the Company did not hold any general meeting.

## 9. 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 2013, the Company organized various road show activities and analysts meetings.

9.1 *The rights of Shareholders*

The Board is committed to maintaining an on-going dialogue with shareholders and providing timely disclosure of information concerning the Company's material developments to shareholders and investors. The annual general meetings of the Company provide a forum for communication between shareholders and the Board. An annual general meeting and any extraordinary general meeting called for the passing of a special resolution shall be called by not less than 21 days' notice in writing and any other extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be inclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions to be considered at the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

9.2 *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 registrar in Hong Kong:

Shops 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

9.3 *Investor Relations and Communication*

For the period ended 31 December 2013, there was no material change to the constitutional documents of the Company.

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going communication with shareholders and provide timely disclosure of information concerning the Company's material developments to Shareholders and investors in particular through annual general meetings and other general meetings. The Chairman of the Board, all other Directors of the Board (including independent non-executive Directors) and the chairmen of all Board committees (including their representatives) will attend the annual general meetings to meet Shareholders and answer their enquiries.

The Company publishes its announcements, financial information and other relevant information on its website at www.hengshimining.com, as a channel to promote effective communication. Shareholders are welcome to make enquiries directly to the Company at its principal place of business in Hong Kong. The Company will respond to all enquiries on a timely and proper basis.

In addition, during routine operation the Company strives to receive visits from shareholders and investors, and arrange visits for them. The management of the Company will also communicate with investors and analysts outside office.

Through the above means, the Company delivers transparent operation and effective communication with Shareholders and investors.

## 1. COMPOSITION OF DIRECTORS

The Board of the Company consists of six executive Directors and three independent non-executive Directors, one third of which are independent non-executive Directors from the date of listing and up to the date of this report. The following table sets forth certain information in respect of our Directors:

| Name | Age | Position/ Title in our Group | Date of appointment | Date of retirement | Roles and Responsibilities |
|---|---|---|---|---|---|
| Mr. Li Yanjun (李豔軍) | 49 | Chairman and executive Director | 20 July 2013 | N/A | Responsible for the overall business strategies |
| Mr. Leung Hongying Li Ziwei (李子威) | 26 | Vice chairman and executive Director | 18 January 2011 | N/A | Responsible for our Group's business development and foreign investments |
| Mr. Xia Guoan (夏國安) | 59 | Executive Director and chief executive officer | 20 July 2013 | N/A | Responsible for our Group's overall business management and daily operation |
| Mr. Sun Jianhua (孫建華) | 31 | Executive Director and chief financial officer | 20 July 2013 | N/A | Responsible for our Group's accounting and financial management |
| Mr. Huang Kai (黃凱) | 40 | Executive Director | 20 July 2013 | N/A | Responsible for the general management of production and the environment, health and safety matters |
| Mr. Tu Quanping (塗全平) | 44 | Executive Director | 20 July 2013 | N/A | Responsible for iron ore mining and processing, related design, mining plan and supervision work |
| Mr. Ge Xinjian (葛新建) | 54 | Independent non-executive Director | 20 July 2013 | N/A | Responsible for overseeing the management independently |
| Mr. Meng Likun (孟立坤) | 52 | Independent non-executive Director | 20 July 2013 | N/A | Responsible for overseeing the management independently |
| Mr. Kong Chi Mo (江智武) | 38 | Independent non-executive Director | 20 July 2013 | N/A | Responsible for overseeing the management independently |

## 2. BIOGRAPHIES OF EXECUTIVE DIRECTORS

**Mr. Li Yanjun (李豔軍)**, aged 49, is our executive Director and the chairman of the Board, and is mainly responsible for the overall business strategies of our Group. Mr. Li has over 15 years of experience in the iron ore mining and processing industry and the steel industry. Mr. Li established Aowei Group in December 1996 to engage in the trading of iron and steel products and had been the executive director of Aowei Group since its establishment until May 2013. He established Aoyu Steel in July 2001, which engaged in the production of iron and steel products, and served as the chairman of Aoyu Steel since its establishment until March 2012. Through establishing companies and undertaking mergers and acquisitions at Aowei Group, Mr. Li founded our Group when he began to operate Xinxin Mining in April 2004, and subsequently he started operations of Jingyuancheng Mining in November 2009 and Jiheng Mining in August 2010. He has gained extensive experience and knowledge of the iron and steel industry, management of iron and steel enterprises and the upstream iron ore mining and processing industry and has an understanding of the geological distribution of iron ore mines and iron and steel manufacturers. He has been responsible for the overall management and strategic development of our Group. Mr. Li graduated from high school.

Mr. Li was elected a member of the 12th National People's Congress (第十二屆全國人大) in recognition of his contribution to economic development and local employment. He was awarded the Outstanding Private Entrepreneur in Hebei Province (河北省優秀民營企業家) in April 2005 and the Outstanding Constructor of Socialism with Chinese Characteristics (優秀中國特色社會主義事業建設者) in December 2005.

Mr. Li is the father of Mr. Leung Hongying Li Ziwei.

**Mr. Leung Hongying Li Ziwei (李子威)**, aged 26, is our executive Director and the vice chairman of the Board and is responsible for our Group's business development and foreign investments. Mr. Li joined our Group in August 2008. He has gained over five years of experience in the iron ore mining industry from his involvement in the areas of procurement, supply and sales of raw materials and steel products at Aowei Group, Aoyu Steel and our Group. He has been responsible for the overall management and strategic development of our Group.

Mr. Li has actively worked in the consolidation of small-scale iron ore mines by our operating subsidiaries since August 2008 and the reorganization of our Group in preparation for the Global Offering. Mr. Li served as the general manager assistant of Aoyu Steel from August 2008 to August 2009, and was responsible for procurement, supply and sales. He served as the assistant to the chairman of Aowei Group from September 2009 to May 2010. He served as the president of Aowei Group from June 2010 to May 2013. He is the director of Hengshi Holdings, Hengshi Investments, Hengshi HK, Aowei Investments and Aowei Developments. Mr. Li graduated from high school.

Mr. Li is the son of Mr. Li Yanjun.

**Mr. Xia Guoan (夏國安)**, aged 59, is our executive Director and the chief executive officer. He is responsible for our Group's overall business management and daily operation.

Mr. Xia has more than 10 years of experience in mining operations and administration. He took part in establishing Aowei Mining from 2010 to 2011 and was involved in expanding our Group's business into the upstream iron ore mining and processing industry. He also played an important role in negotiating the acquisition of Jingyuancheng Mining in 2011. From July 2007 to March 2010, he served as the standing deputy general manager of Laiyuan County Xinrui Mining Co., Ltd. (淶源縣鑫瑞礦業有限公司), and was responsible for mine production and operation. Mr. Xia joined our Group in March 2010 as the chief of the preparatory group responsible for establishing Aowei Mining. He acted as a standing deputy general manager of Aowei Mining since June 2011 and was promoted to be a director and the general manager of Aowei Mining in March 2013. He also served as the vice president of Aowei Group from May 2012 to February 2013.

Prior to joining our Group, Mr. Xia served as a deputy general manager of Laiyuan County Huiyuan Mining Co., Ltd. (淶源縣匯源礦業有限公司) from March 2002 to June 2007, and was responsible for the management and planning of mine development.

**Mr. Sun Jianhua (孫建華)**, aged 31, is our executive Director and the chief financial officer. He is responsible for our Group's accounting and financial management. He joined our Group in February 2012 as the head of the finance department of Aowei Mining.

Mr. Sun has over 10 years of experience in financial and accounting management. He served as the head of the finance department of Aowei Mining from February 2012 to June 2013. He held various positions at Aoyu Steel between February 2004 and February 2012, including accountant, head of the finance division and vice head of the finance department. Mr. Sun graduated from Baoding Financial Senior Professional Institute (保定市金融高等專科學校) in June 2003. He was admitted as a certified public accountant by the Chinese Institute of Certified Public Accountants in December 2010 and was accredited as a certified tax advisor by the State Administration of Taxation in June 2011 and a certified public valuer by the Ministry of Finance of the PRC in September 2011.

**Mr. Huang Kai (黃凱)**, aged 40, is our executive Director. He is responsible for the general management of production and the environment, health and safety matters.

Mr. Huang has approximately 10 years of management experience. From March 2004 to February 2012, he successively served as the head of corporate governance department, the assistant general manager and a deputy general manager of Aoyu Steel. Mr. Huang joined our Group in March 2010 as the vice chief of the preparatory group responsible for establishing Aowei Mining. He has been a standing deputy general manager of Aowei Mining since February 2012. He gained substantial management experience during his employment with Aoyu Steel and Aowei Mining.

Mr. Huang attended the continuing education course of iron and steel at Tsinghua University from July 2004 to October 2005. He obtained a bachelor's degree in Business Management from Renmin University of China in June 2013 by correspondence. He was named the Outstanding Individual of Hebei Province Metallurgy Industry (河北省冶金行業先進工作者) of Hebei Province Metallurgical Industry Association in April 2009 in recognition of his contribution to the mining industry.

**Mr. Tu Quanping (塗全平)**, aged 44, is our executive Director. He is responsible for the supervision of mining, processing, design and mining plan of all our iron ore mines.

Mr. Tu has more than 20 years of experience in the mining industry. Since joining our Group in August 2005, he has been in charge of the project design, infrastructure construction, development and mining of our mines, coordination of our production plan, design of the technical parameters of our ore preparation plants and onsite management and supervision. From August 2005 to March 2010, he served as the mining engineer, deputy head and head of Xinxin Mining. From March 2010 to June 2011, he served as the chief technical officer of the preparatory group responsible for the establishment of Aowei Mining. He has been a director of Xinxin Mining since June 2011. He has also been the chief engineer of Aowei Mining since June 2011.

Prior to joining our Group, Mr. Tu served as a mining engineer, and chief of mining, of Anhui Magang Group Nanshan Mining Company (安徽馬鋼集團南山礦業公司) from August 1991 to August 2005.

Mr. Tu obtained a bachelor's degree in Mining Engineering from Wuhan Steel Institute (武漢鋼鐵學院) (now known as Wuhan University of Science and Technology (武漢科技大學)) in July 1991. He took the postgraduate course of enterprise planning and development at Nanjing University (南京大學) from September 2001 to December 2003. Mr. Tu was accredited as a senior mining engineer by Magang Metallurgy Projects Senior Engineer Evaluation Committee (馬鋼冶金工程高級工程師評審委員會) in December 2002.

## 3. INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Ge Xinjian (葛新建)**, aged 54, is our independent non-executive Director.

Mr. Ge has more than 30 years of experience in processing research, design and technical management. He has served as the chief engineer and Person-in-charge of technology of Magang Group Design & Research Institute Co., Ltd. (馬鋼集團設計研究院有限責任公司) since March 2004 and has also become the vice president since August 2011. Mr. Ge currently serves as a member of the 6th Ore Dressing Branch Committee of the Chinese Society for Metals (中國金屬學會選礦分會委員會), the director of China Metallurgical Mining Enterprise Association (中國冶金礦山企業協會), the standing director of the China Mining Development Strategic Alliance (中國礦業發展戰略聯盟), a member of the Expert Committee of the editorial department of Modern Mining (《現代礦業》編輯部), and a deputy doctoral mentor for students majored in Processing Engineer of School of Resources and Civil Engineering of Northeastern University (東北大學).

Mr. Ge published several theses in different professional journals and compiled many professional works, including Current Application of High-Pressure Grinder of Metallurgy Mine in China (《高壓輥磨工藝在我國冶金礦山的應用現狀》 (Modern Mining, 9th edition of 2009). Mr. Ge obtained a bachelor's degree in Ore Dressing from Jiangxi Metallurgy Institute (江西冶金學院) (now known as Jiangxi University of Science and Technology (江西理工大學)) in July 1983. Mr. Ge is a professor-level senior engineer in ore dressing recognized by Personnel Department of Anhui Province (安徽省人事廳) in December 2009, a national mineral reserves appraiser recognized by Department of Personnel and Education of Ministry of Land and Resources (國土資源部人事教育司) in September 2007 and a registered national environment engineer recognized by Personnel Department of Anhui Province in September 2007.

**Mr. Meng Likun (孟立坤)**, aged 52, is our independent non-executive Director.

Mr. Meng was a special consultant of Rongtong Fund Management Co., Ltd. (融通基金管理有限公司) from March 2010 to January 2012. He served as the president and an executive director of New Time Securities Co., Ltd. (新時代證券有限責任公司) from May 2006 to January 2009. He acted as the chairman of the board of directors of Rongtong Fund Management Co., Ltd. from May 2001 to March 2010.

Mr. Meng obtained a bachelor's degree in mechanical design and a master's degree in engineering from Taiyuan Mechanical Engineering College (太原機械學院), now known as North University of China (中北大學) in July 1982 and September 1986 respectively, and obtained a doctorate degree in engineering from Beijing Institute of Technology (北京理工大學) in March 1993.

**Mr. Kong Chi Mo (江智武)**, *FCCA, FCIS, FCS (PE) & MHKIoD,* aged 38, is our independent non-executive Director.

Mr. Kong has over 15 years of experience in accounting, corporate governance and capital market. He has been an executive director, chief financial officer and company secretary of China Vanadium Titano-Magnetite Mining Company Limited (stock code: 00893), a company whose shares are listed on the Main Board of the Stock Exchange, since October 2013, May 2008 and September 2009 respectively. He has served as an independent non-executive director of Huazhang Technology Holding Limited (stock code: 08276), a company whose shares are listed on the Growth Enterprise Market of the Stock Exchange, since May 2013. He has also served as an independent non-executive director of CAA Resources Limited (stock code: 02112), a company whose shares are listed on the Main Board of the Stock Exchange, since April 2013.

He worked at KPMG from October 1999 to December 2007 and was promoted to senior manager. Prior to joining KPMG, Mr. Kong worked as a finance trainee in Hutchison Telecommunications (Hong Kong) Limited from June 1997 to March 1998, and served as a tax associate of PricewaterhouseCoopers from March 1998 to October 1999.

Mr. Kong graduated from the Chinese University of Hong Kong with a bachelor's degree in business administration in May 1997. He has been a fellow member of the Association of Chartered Certified Accountants since February 2008, a fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators since February 2012, and a member of the Hong Kong Institute of Directors ("HKIoD") since May 2010. Mr. Kong received bronze certificates of merit in continuing professional development in 2010 and 2011 and a silver certificate of merit in continuing professional development in 2012 from the HKIoD, respectively.

## 4. SENIOR MANAGEMENT

| Name | Age | Position/Title |
|---|---|---|
| Yang Qiang | 36 | Deputy general manager of Aowei Mining |
| Gao Changquan | 43 | Head of the finance department of Aowei Mining |
| Li Chao | 39 | Deputy general manager of Aowei Mining |
| Jin Jiangsheng | 47 | General manager of Jingyuancheng Mining |
| Chen Dong | 40 | General manager of Xinxin Mining |
| Li Dongfeng | 42 | Director and general manager of Jiheng Mining and director of Aowei Mining |
| Che Shengheng | 51 | Director and the vice chief engineer of Aowei Mining and director of Jingyuancheng Mining |

**Mr. Yang Qiang (楊強)**, aged 36, is a deputy general manager of Aowei Mining since February 2013. He is responsible for the procurement and supply of materials, and sales of products.

Mr. Yang has over 10 years of experience in industrial marketing and management. Mr. Yang held various positions in Aoyu Steel from March 2003 to March 2012, including the head of raw materials division of supply and sales department and the head of purchasing and supply department. He served as the vice manager of the strategic investment department of Aowei Group from March 2012 to February 2013, and was responsible for evaluating investment opportunities in the mining industry. Mr. Yang joined our Group in February 2013 as a deputy general manager of Aowei Mining.

Mr. Yang graduated from Baoding Finance and Trade School (保定市財貿學校) in July 1999 and obtained an undergraduate diploma in Business Administration from Party School of the CPC Central Committee (中共中央黨校) by correspondence in December 2009. He obtained the first-class qualification of marketing recognized by the Ministry of Human Resources and Social Security (人力資源和社會保障部) in April 2010.

**Mr. Gao Changquan (郜常泉)**, aged 43, has been the head of the finance department of Aowei Mining since February 2013. He is assisting Mr. Sun Jianhua in overseeing the financial and accounting management of Aowei Mining.

Mr. Gao has approximately 25 years of experience in accounting and financial management. Mr. Gao first joined our Group in February 2005, where he served as the head of finance division of Xinxin Mining until March 2006. From March 2006 to February 2013, he served as the head of finance department of Aoyu Steel. He rejoined our Group in February 2013 as the head of the finance department of Aowei Mining. Prior to joining our Group, Mr. Gao was an accountant of Baoding Xiangda Garment Manufactory Co., Ltd. (保定翔達製衣有限公司) from June 1993 to January 2005.

Mr. Gao obtained an undergraduate diploma in Accounting from The Open University of China (中國廣播電視大學) in January 2009.

**Mr. Li Chao (李超)**, aged 39, has been a deputy general manager of Aowei Mining since February 2013. He is responsible for corporate administration.

Mr. Li has over 10 years of experience in industrial marketing and management. He was the procurement manager of Aowei Group from February 2003 to February 2006 and the head of the supply and marketing department of Aoyu Steel from March 2006 to November 2009. Mr. Li rejoined our Group in November 2009 and served as a deputy general manager of Jingyuancheng Mining from November 2009 to February 2013, during which he was responsible for corporate governance and management. Mr. Li graduated from high school.

**Mr. Jin Jiangsheng (金江生)**, aged 47, is the general manager of Jingyuancheng Mining. He is responsible for the general management and daily operation of Jingyuancheng Mining.

Mr. Jin has over 9 years of experience in industrial marketing and management. He first joined our Group in December 2004, where he served as the leader of water concentration plant of Xinxin Mining until June 2006. Between June 2006 and February 2012, he worked at Aoyu Steel and subsequently served as the head of the sintering plant and the steel plant. He rejoined our Group in February 2012 as the general manager of Jingyuancheng Mining.

Prior to joining our Group, Mr. Jin worked in Rongcheng County Machinery Plant (容城縣機械廠) and subsequently served as the head of the processing workshop, the head of the sales division and the head of Rongcheng County Machinery Plant from February 1991 to December 2003. Mr. Jin graduated from high school.

**Mr. Chen Dong (陳東)**, aged 40, is the general manager of Xinxin Mining. He is responsible for the general management and daily operation of Xinxin Mining.

Mr. Chen has over 8 years of management experience in the iron and steel industry. From December 2004 to February 2012, he served as the deputy head and subsequently the head of the sintering plant of Aoyu Steel. He joined our Group in February 2012 and has served as the general manager of Xinxin Mining, where he is responsible for the day-to-day operation. Prior to joining our Group, Mr. Chen was the assistant to the head of the sintering plant of Chengde Jianlong Iron and Steel Co., Ltd. (承德建龍鋼鐵有限公司) from January 2003 to October 2004.

Mr. Chen obtained a bachelor's degree in Ore Dressing Engineering from University of Science and Technology Beijing (北京科技大學) in July 1996. Mr. Chen was accredited as a certified ore processing engineer by Liaoning Provincial Department of Human Resources in September 2001.

**Mr. Li Dongfeng (李東風)**, aged 42, is a director of Aowei Mining and Jiheng Mining. He also serves as the general manager of Jiheng Mining. He is responsible for the general management and daily operation of Jiheng Mining.

Mr. Li has over 10 years of experience in industrial marketing and management. From December 1996 to March 2004, he served as the business manager of Aowei Group. From March 2004 to June 2007, he served as a deputy general manager of Laiyuan County Huiyuan Mining Co., Ltd. (淶源縣匯源礦業有限公司). From July 2007 to August 2010, he served as the general manager of Xinrui Mining. Mr. Li joined our Group in August 2010 and has served as a director and the general manager of Jiheng Mining since. He has been a director of Aowei Mining since June 2011 and was the general manager of Aowei Mining from June 2011 to March 2013. Mr. Li graduated from high school.

**Mr. Che Shengheng (車勝恒)**, aged 51, is a director of Aowei Mining and Jingyuancheng Mining. He currently serves as a vice chief engineer of Aowei Mining.

Mr. Che has approximately 30 years of experience in mine planning and exploration. From March 2002 to June 2007, he served as the general engineer of Laiyuan County Huiyuan Mining Co., Ltd. (淶源縣匯源礦業有限公司). From July 2007 to August 2010, he served as the general engineer of Xinrui Mining. Mr. Che joined our Group in August 2010. From August 2010 to June 2011, he served as the chief engineer of Jiheng Mining. He has been a director and the vice chief engineer of Aowei Mining and a director of Jingyuancheng Mining since June 2011.

Mr. Che obtained a bachelor's degree in Mining Engineering from Tangshan Engineering Technical College (唐山工程技術學院, currently known as Hebei United University (河北聯合大學)) in July 1986. In addition, Mr. Chen was accredited as a senior mining engineer by the Technological Evaluation Committee of Senior Metallurgy Projects in Hebei Province (冀高級冶金工程技術評委會) in October 1998.

Save as disclosed above, none of our Directors or senior management has other directorships in listed companies.

## 5. JOINT COMPANY SECRETARIES

Ms. Kwong Yin Ping, Yvonne, a member of The Hong Kong Institute of Chartered Secretaries, has been appointed as the joint company secretary of our Company. Her principal associate in our Company is Mr. Meng Ziheng, the joint company secretary of our Company.

**Mr. Meng Ziheng (孟子恒)**, aged 29, is one of our joint company secretaries and has been an investment manager at the strategic investment department of Aowei Group since April 2011. Mr. Meng served as a system manager at the operation management department of Aowei Group from April 2010 to March 2011. He worked at the equipment maintenance department of Hebei Guohua Dingzhou Power Generation Co., Ltd. (河北國華定洲發電有限責任公司) from July 2007 to March 2010. Mr. Meng graduated from the North China Electric Power University (華北電力大學) in July 2007, majoring in software engineering, and obtained a bachelor's degree.

**Ms. Kwong Yin Ping, Yvonne (鄺燕萍)**, aged 58, the joint company secretary of our Company. Ms. Kwong obtained a bachelor's degree of arts in accountancy from the Hong Kong Polytechnic University (香港理工大學). She works as vice president in a professional corporate services company which is engaged in providing secretarial and compliance services for listed companies. She is also a fellow of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators of the United Kingdom. She has extensive experience in providing company secretarial services for numerous private and listed companies. She serves as company secretary and joint company secretary of various companies listed on the Hong Kong Stock Exchange. Mr. Meng Zihang is the main contact person of Ms. Kwong in the Company.

**Independent auditor's report**
**to the shareholders of Hengshi Mining Investments Limited**
*(Incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Hengshi Mining Investments Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 56 to 105, which comprise the consolidated and company balance sheets as at 31 December 2013, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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 issued by the International Accounting Standards Board 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. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with 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 judgement, 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 gives 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 includes 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.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013 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 requirement of the Hong Kong Companies Ordinance.

**KPMG**
*Certified Public Accountants*
8th Floor, Prince’s Building
10 Chater Road
Central, Hong Kong

19 March 2014

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013
*(Expressed in Renminbi)*

| | Note | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| Turnover | 4 | **1,286,078** | 581,573 |
| Cost of sales | | **(575,255)** | (393,149) |
| **Gross profit** | | **710,823** | 188,424 |
| Distribution costs | | **(4,739)** | (1,920) |
| Administrative expenses | | **(107,519)** | (101,538) |
| **Profit from operations** | | **598,565** | 84,966 |
| Finance income | 5(a) | **280** | 115 |
| Finance costs | 5(a) | **(26,574)** | (7,621) |
| Net finance costs | | **(26,294)** | (7,506) |
| **Profit before taxation** | 5 | **572,271** | 77,460 |
| Income tax | 6 | **(146,659)** | (22,666) |
| **Profit for the year** | | **425,612** | 54,794 |
| **Other comprehensive income for the year** | | | |
| *Items that may be reclassified subsequently to profit and loss:* | | | |
| Exchange differences on translation of financial statements of group of companies outside of Mainland China | 11 | **(5,597)** | – |
| **Total comprehensive income for the year** | | **420,015** | 54,794 |
| **Profit attributable to:** | | | |
| Equity shareholders of the Company | 10 | **397,513** | 48,450 |
| Non-controlling interests | | **28,099** | 6,344 |
| **Profit for the year** | | **425,612** | 54,794 |
| **Total comprehensive income attributable to:** | | | |
| Equity shareholders of the Company | | **391,916** | 48,450 |
| Non-controlling interests | | **28,099** | 6,344 |
| **Total comprehensive income for the year** | | **420,015** | 54,794 |
| **Earnings per share** | | | |
| Basic and diluted (RMB) | 7 | **0.34** | 0.04 |

The notes on pages 62 to 105 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 28(b).

# Consolidated Balance Sheet

At 31 December 2013
*(Expressed in Renminbi)*

| | Note | 31 December 2013 RMB'000 | 31 December 2012 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment, net | *13* | **450,729** | 271,340 |
| Construction in progress | *14* | **166,992** | 161,580 |
| Lease prepayments | *15* | **157,495** | 154,296 |
| Intangible assets | *16* | **420,045** | 218,484 |
| Long-term receivables | *18* | **33,960** | 11,420 |
| Prepayments | *19* | **3,257** | 5,291 |
| Deferred tax assets | *25(b)* | **8,641** | 1,225 |
| | | **1,241,119** | 823,636 |
| **Current assets** | | | |
| Inventories | *20* | **41,235** | 160,071 |
| Trade and other receivables | *21* | **83,649** | 39,401 |
| Amounts due from related parties | *31* | **–** | 386 |
| Cash and cash equivalents | *22* | **987,562** | 22,668 |
| | | **1,112,446** | 222,526 |
| **Current liabilities** | | | |
| Short-term borrowings and current portion of long-term borrowings | *23(a)* | **40,000** | – |
| Trade and other payables | *24* | **201,562** | 237,805 |
| Amounts due to related parties | *31* | **–** | 483,581 |
| Current taxation | *25(a)* | **11,918** | 2,222 |
| Current portion of long-term payables | *26* | **51,740** | 21,026 |
| Current portion of accrued reclamation obligations | *27* | **4,434** | 2,935 |
| | | **309,654** | 747,569 |
| **Net current assets/(liabilities)** | | **802,792** | (525,043) |
| **Total assets less current liabilities** | | **2,043,911** | 298,593 |

The notes on pages 62 to 105 form part of these financial statements.

At 31 December 2013
*(Expressed in Renminbi)*

| | Note | 31 December 2013 RMB'000 | 31 December 2012 RMB'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Interest-bearing borrowings, less current portion | *23(b)* | **270,000** | – |
| Long-term payables, less current portion | *26* | **218,779** | 90,454 |
| Accrued reclamation obligations, less current portion | *27* | **42,359** | 43,753 |
| Deferred tax liabilities | *25(b)* | **–** | 56 |
| | | **531,138** | 134,263 |
| **NET ASSETS** | | **1,512,773** | 164,330 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | *28(c)* | **120** | 1 |
| Reserves | | **1,458,959** | 138,734 |
| **Total equity attributable to equity shareholders of the Company** | | **1,459,079** | 138,735 |
| **Non-controlling interests** | | **53,694** | 25,595 |
| **TOTAL EQUITY** | | **1,512,773** | 164,330 |

Approved and authorised for issue by the board of directors on 19 March 2014.

**Li Yanjun**
*Chairman*

**Leung Hongying Li Ziwei**
*Vice Chairman*

The notes on pages 62 to 105 form part of these financial statements.

# Balance Sheet

At 31 December 2013
*(Expressed in Renminbi)*

| | Note | 31 December 2013 RMB'000 | 31 December 2012 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment in a subsidiary | *17* | **150,576** | 150,576 |
| **Current assets** | | | |
| Other receivables | *21* | **3,015** | – |
| Amounts due from related parties | | **–** | 1 |
| Cash and cash equivalents | *22* | **924,908** | – |
| | | **927,923** | 1 |
| **Current liabilities** | | | |
| Other payables | *24* | **18,212** | – |
| | | **18,212** | – |
| **Net current assets** | | **909,711** | 1 |
| **Total assets less current liabilities** | | **1,060,287** | 150,577 |
| **NET ASSETS** | | **1,060,287** | 150,577 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | *28(c)* | **120** | 1 |
| Reserves | | **1,060,167** | 150,576 |
| **TOTAL EQUITY** | | **1,060,287** | 150,577 |

Approved and authorised for issue by the board of directors on 19 March 2014.

**Li Yanjun**
*Chairman*

**Leung Hongying Li Ziwei**
*Vice Chairman*

The notes on pages 62 to 105 form part of these financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2013
*(Expressed in Renminbi)*

| | | Attributable to equity shareholders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Note | Share capital RMB'000 (note 28(c)) | Share premium RMB'000 (note 28(d)) | Statutory surplus reserve RMB'000 (note 28(d)) | Special reserve RMB'000 (note 28(d)) | Exchange reserve RMB'000 (note 28(d)) | Other reserve RMB'000 (note 28(d)) | Retained earnings RMB'000 | Sub-total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| **At 1 January 2012** | | 1 | – | 21,392 | 24,226 | – | (17,287) | 103,427 | 131,759 | 57,777 | 189,536 |
| **Changes in equity:** | | | | | | | | | | | |
| Profit for the year | | – | – | – | – | – | – | 48,450 | 48,450 | 6,344 | 54,794 |
| Total comprehensive income | | – | – | – | – | – | – | 48,450 | 48,450 | 6,344 | 54,794 |
| Transfer to special reserve | | – | – | – | 9,142 | – | – | (9,142) | – | – | – |
| Acquisition of non-controlling interests | | – | – | 2,839 | 1,372 | – | (45,685) | – | (41,474) | (38,526) | (80,000) |
| Appropriation to reserves | | – | – | 5,702 | – | – | – | (5,702) | – | – | – |
| **At 31 December 2012** | | 1 | – | 29,933 | 34,740 | – | (62,972) | 137,033 | 138,735 | 25,595 | 164,330 |
| **At 1 January 2013** | | **1** | **–** | **29,933** | **34,740** | **–** | **(62,972)** | **137,033** | **138,735** | **25,595** | **164,330** |
| **Changes in equity:** | | | | | | | | | | | |
| Profit for the year | | **–** | **–** | **–** | **–** | **–** | **–** | **397,513** | **397,513** | **28,099** | **425,612** |
| Other comprehensive income | | **–** | **–** | **–** | **–** | **(5,597)** | **–** | **–** | **(5,597)** | **–** | **(5,597)** |
| Total comprehensive income | | **–** | **–** | **–** | **–** | **(5,597)** | **–** | **397,513** | **391,916** | **28,099** | **420,015** |
| Issuance of shares | *28(c)* | **119** | **968,979** | **–** | **–** | **–** | **–** | **–** | **969,098** | **–** | **969,098** |
| Share issuance costs | | **–** | **(40,670)** | **–** | **–** | **–** | **–** | **–** | **(40,670)** | **–** | **(40,670)** |
| Transfer to special reserve | | **–** | **–** | **–** | **3,041** | **–** | **–** | **(3,041)** | **–** | **–** | **–** |
| Appropriation to reserves | | **–** | **–** | **41,243** | **–** | **–** | **–** | **(41,243)** | **–** | **–** | **–** |
| **At 31 December 2013** | | **120** | **928,309** | **71,176** | **37,781** | **(5,597)** | **(62,972)** | **490,262** | **1,459,079** | **53,694** | **1,512,773** |

The notes on pages 62 to 105 form part of these financial statements.

# Consolidated Cash Flow Statement

For the year ended 31 December 2013
*(Expressed in Renminbi)*

| | Note | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before taxation | | **572,271** | 77,460 |
| Adjustments for: | | | |
| Depreciation and amortisation | 5(c) | **70,502** | 39,522 |
| Finance income | 5(a) | **(280)** | (115) |
| Finance costs | 5(a) | **26,574** | 7,621 |
| Net loss on disposal of property, plant and equipment | 5(c) | **440** | 8,086 |
| Listing expense | 5(c) | **30,477** | – |
| **Changes in working capital:** | | | |
| Decrease/(increase) in inventories | | **118,836** | (53,791) |
| (Increase)/decrease in trade and other receivables and amounts due from related parties | | **(71,859)** | 13,390 |
| (Decrease)/increase in trade and other payables and amounts due to related parties | | **(498,434)** | 227,494 |
| **Cash generated from operations** | | **248,527** | 319,667 |
| Income tax paid | 25(a) | **(138,978)** | (42,361) |
| **Net cash generated from operating activities** | | **109,549** | 277,306 |
| **Investing activities** | | | |
| Payments for acquisition of property, plant and equipment and construction in progress | | **(242,567)** | (149,574) |
| Payments for lease prepayments | | **(17,455)** | (33,306) |
| Payments for acquisition of intangible assets | | **(77,770)** | (35,601) |
| Proceeds from disposal of property, plant and equipment | | **476** | 1,888 |
| Interests received | | **280** | 115 |
| **Net cash used in investing activities** | | **(337,036)** | (216,478) |
| **Financing activities** | | | |
| Proceeds from issuance of shares | | **969,098** | – |
| Payments for listing expenses | | **(71,147)** | – |
| Proceeds from borrowings | | **390,000** | – |
| Interests paid | | **(9,954)** | – |
| Payments for acquisition of non-controlling interests | | **–** | (80,000) |
| Repayments of borrowings | | **(80,000)** | – |
| **Net cash generated from/(used in) financing activities** | | **1,197,997** | (80,000) |
| **Net increase/(decrease) in cash and cash equivalents** | | **970,510** | (19,172) |
| **Cash and cash equivalents at beginning of the year** | | **22,668** | 41,840 |
| Effect of foreign exchange rate changes | | **(5,616)** | – |
| Cash and cash equivalents at end of the year | 22 | **987,562** | 22,668 |

The notes on pages 62 to 105 form part of these financial statements.

*(Expressed in Renminbi unless otherwise stated)*

## 1 CORPORATE INFORMATION

Hengshi Mining Investments Limited (the "Company") was incorporated in the British Virgin Islands ("BVI") on 14 January 2011 and redomiciled to the Cayman Islands on 23 May 2013 as an exempted company with limited liability under the Companies Law, Chapter 22 (2012 Revision, as consolidated and revised) of the Cayman Islands. The Company and its subsidiaries (together the "Group") are principally engaged in the mining, processing and trading of iron ore products.

Pursuant to a group reorganisation (the "Reorganisation"), the Company became the holding company of the companies now comprising the Group for the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Details of the Reorganisation are set out in the prospectus of the Company dated 18 November 2013 (the "Prospectus"). The Company's shares were listed on the Stock Exchange on 28 November 2013.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB"), and the applicable disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. The Group has adopted all applicable new and revised IFRSs to the current and prior accounting periods reflected in these financial statements, except for any new standards or interpretations that are not yet effective for the accounting period ended 31 December 2013. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period beginning on 1 January 2013 are set out in note 33.

### (b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2013 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis.

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

*(Expressed in Renminbi unless otherwise stated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (b) Basis of preparation of the financial statements *(continued)*

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

### (c) Basis of consolidation

#### *(i) Business combinations involving enterprises under common control*

A business combination involving enterprises under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The assets and liabilities obtained are measured at the carrying amounts as recorded by the entity being combined at the combination date. The difference between the carrying amount of the net assets obtained and the carrying amount of consideration paid for the combination (or the total face value of shares issued) is adjusted to equity. The combination date is the date on which one combining entity effectively obtains control of the other combining entities.

#### *(ii) Business combinations involving entities not under common control*

A business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the business combination.

The acquirer, at the acquisition date, allocates the cost of the business combination by recognising the acquiree's identifiable assets, liabilities and contingent liabilities at their fair value at that date.

#### *(iii) Subsidiaries and non-controlling interests*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised profits but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

*(Expressed in Renminbi unless otherwise stated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (c) Basis of consolidation *(continued)*

#### *(iii) Subsidiaries and non-controlling interests (continued)*

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 2(j) or (k) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(g)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

### (d) Property, plant and equipment

Property, plant and equipment, which consist of buildings and plants, machinery and equipment, motor vehicles, office equipment and mine properties are initially stated at cost less accumulated depreciation and impairment losses (see note 2(g)(ii)). The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to its present working condition and location for its intended use, the cost of borrowed funds used during the period of construction and, when relevant, the costs of dismantling and removing the items and restoring the site on which they are located, and changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

Construction in progress represents property and plant under construction, equipment pending installation and mines under construction, and is initially recognised at cost less impairment losses (see note 2(g)(ii)). Cost comprises cost of materials, direct labour and an appropriate proportion of production overheads and borrowing costs (see note 2(s)). Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use. No depreciation is provided in respect of construction in progress until it is completed and substantially ready for its intended use.

*(Expressed in Renminbi unless otherwise stated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (d) Property, plant and equipment *(continued)*

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other cost is recognised as an expense in profit or loss in the period in which it is incurred.

In open pit mining operations, the removal of overburden and waste materials, referred to as stripping, is required to obtain access to the ore body. Stripping costs incurred during the development phase of a mine are capitalised as stripping activity asset forming part of the cost of constructing the mine. Capitalisation of development stripping costs ceases and these costs are transferred to property, plant and equipment – mine properties when the mine or component of ore body is ready for its intended use.

Stripping costs incurred during the production phase of a surface mine are variable production costs that are included in the cost of inventories produced during the period that the stripping costs are incurred (see note 2(h)), unless the stripping activity can be shown to give rise to future economic benefits from the mineral property by increasing access to the ore body and the component of the ore body for which access has been improved can be identified, in which case the stripping costs incurred are capitalised into property plant and equipment – mine properties.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, other than mine properties, over their estimated useful lives using the straight-line method, after taking into account the estimated residual values. The estimated useful lives of property, plant and equipment are as follows:

| | **Depreciable life** |
|---|---|
| Buildings and plants | 6–20 years |
| Machinery and equipment | 3–10 years |
| Motor vehicles | 5 years |
| Office equipment | 3 years |

Mine properties are depreciated using the units-of-production method based on the proven and probable mineral reserves in relation to the identified mine or component of ore body.

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately.

Both the useful life of an asset and its residual value, if any, are reviewed annually.

*(Expressed in Renminbi unless otherwise stated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (e) Intangible assets

***(i) Mining rights***

Mining rights are stated at cost less accumulated amortisation and impairment losses (see note 2(g)(ii)). The mining rights are amortised using the units-of-production method based on the proved and probable mineral reserves. The Group's mining rights are of sufficient duration (or convey a legal right to renew for sufficient duration) to enable all reserves to be mined in accordance with current production schedules.

***(ii) Exploration and evaluation assets***

Exploration and evaluation assets are stated at cost less impairment losses (see note 2(g)(ii)). Exploration and evaluation assets include expenditures incurred in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable and expenditures incurred to secure further mineralisation in existing ore bodies and to expand the capacity of a mine. Expenditure during the initial exploration stage is charged to profit or loss as incurred.

When it can be reasonably ascertained that a mining structure is capable of commercial production, exploration and development costs capitalised are transferred to mining right and amortised to profit or loss using the units-of-production method based on the proved and probable mineral reserves. If any project is abandoned during the exploration and evaluation stage, the related exploration and evaluation assets are written off to profit or loss.

### (f) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

***(i) Classification of assets leased to the Group***

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

***(ii) Operating lease charges***

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

***(iii) Lease prepayments***

Lease prepayments represent the costs of acquiring the land use rights. Land use rights are carried at cost less accumulated amortisation and impairment losses (see note 2(g)(ii)). Amortisation is charged to profit or loss on a straight line basis over the period of the land use rights.

*(Expressed in Renminbi unless otherwise stated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (g) Impairment of assets

#### *(i) Impairment of investments in subsidiaries and trade and other receivables*

Investments in subsidiaries and trade and other receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investments in subsidiaries (see note 2(c)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(g)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(g)(ii).

– For trade and other current receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

*(Expressed in Renminbi unless otherwise stated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (g) Impairment of assets *(continued)*

***(i) Impairment of investments in subsidiaries and trade and other receivables*** *(continued)*

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and other receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

***(ii) Impairment of other assets***

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- construction in progress;
- lease prepayments;
- intangible assets; and
- other non-current assets (excluding receivables).

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

*(Expressed in Renminbi unless otherwise stated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (g) Impairment of assets *(continued)*

***(ii) Impairment of other assets*** *(continued)*

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the cash-generating unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

***(iii) Interim financial reporting and impairment***

Under the Rules Governing the Listing of Securities on the Stock Exchange, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(g)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

### (h) Inventories

Inventories, including weakly mineralised wall rock, iron ore, preliminary concentrates and iron ore concentrates, are physically measured or estimated and valued at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, cost of conversion, an appropriate portion of fixed and variable overhead costs, including the stripping costs incurred during the production phase, and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated future sales price of the product the Group expects to realise when such item is sold or processed, less estimated costs to complete and bring the product to sale.

*(Expressed in Renminbi unless otherwise stated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (h) Inventories *(continued)*

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Inventories of ancillary materials, spare parts and small tools used in production are stated at cost less impairment losses for obsolescence.

### (i) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(g)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

### (j) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

### (k) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

### (m) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

### (n) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

*(Expressed in Renminbi unless otherwise stated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (n) Income tax *(continued)*

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward.

The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

*(Expressed in Renminbi unless otherwise stated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (n) Income tax *(continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

### (o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### (p) Obligations for reclamation

The Group's obligations for reclamation consist of spending estimates at its mines in accordance with the relevant rules and regulations in the People's Republic of China ("PRC"). The Group estimates its liabilities for final reclamation and mine closure based upon detailed calculations of the amount and timing of the future cash spending to perform the required work. Spending estimates are escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability such that the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation. The Group records a corresponding asset associated with the liability for final reclamation and mine closure. The obligation and corresponding asset are recognised in the period in which the liability is incurred. The asset is depreciated on the units-of-production method over its expected life and the liability is accreted to the projected spending date. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation and the corresponding asset are recognised at the appropriate discount rate.

*(Expressed in Renminbi unless otherwise stated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (q) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

*(i) Sale of goods*

Revenue associated with the sale of iron ore, preliminary concentrates and iron ore concentrates is recognised when the risks and rewards of ownership of the goods have been passed to the customer. Revenue excludes value added tax and is after deduction of any trade discounts.

*(ii) Interest income*

Interest income is recognised as it accrues using the effective interest method.

### (r) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

### (s) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

*(Expressed in Renminbi unless otherwise stated)*

## 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (t) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

- has control or joint control over the Group;
- has significant influence over the Group; or
- is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

- The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- Both entities are joint ventures of the same third party.
- One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- The entity is controlled or jointly controlled by a person identified in (i).
- A person identified in (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

### (u) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

*(Expressed in Renminbi unless otherwise stated)*

## 3 ACCOUNTING JUDGEMENTS AND ESTIMATES

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. These estimates involve assumptions about such items as risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs. The Group's estimates and assumptions are based on the expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

### (a) Critical accounting judgements in applying the Group's accounting policies

***(i) Reserves***

Engineering estimates of the Group's iron ore reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. Reserve estimates are updated at regular basis and have taken into account recent production and technical information about the relevant iron ore deposit. In addition, as prices and cost levels change from year to year, the estimate of iron ore reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation and amortisation rates.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation and amortisation expenses and impairment loss. Depreciation and amortisation rates are determined based on estimated iron ore reserve quantity (the denominator) and capitalised costs of mining structures and mining rights (the numerator). The capitalised cost of mining structures and mining rights are depreciated and amortised based on the units produced.

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

Management determines the estimated useful lives of and related depreciation charges for its property, plant and equipment. This estimate is based on the actual useful lives of assets of similar nature and functions. It could change significantly as a result of significant technical innovations and competitor actions in response to industry cycles. Management will increase the depreciation charges where useful lives are less than previously estimated, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

***(iii) Impairment of assets***

The Group reviews the carrying amounts of the assets at each balance sheet date to determine whether there is objective evidence of impairment. When indication of impairment is identified, management prepares discounted future cash flow to assess the differences between the carrying amount and value in use and provided for impairment loss. Any change in the assumptions adopted in the cash flow forecasts would increase or decrease in the provision of the impairment loss and affect the Group's net asset value.

In relation to trade and other receivables (including the value added tax recoverables), a provision for impairment is made and an impairment loss is recognised in profit and loss when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. Management uses judgement in determining the probability of insolvency or significant financial difficulties of the debtor.

An increase or decrease in the above impairment loss would affect the net profit in future years.

*(Expressed in Renminbi unless otherwise stated)*

## 3 ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

### (a) Critical accounting judgements in applying the Group's accounting policies *(continued)*

***(iv) Obligations for reclamation***

The estimation of the liabilities for final reclamation and mine closure involves the estimates of the amount and timing for the future cash spending as well as the discount rate used for reflecting current market assessments of the time value of money and the risks specific to the liability. The Group considers the factors including future production volume and development plan, the geological structure of the mining regions and reserve volume to determine the scope, amount and timing of reclamation and mine closure works to be performed. Determination of the effect of these factors involves judgements from the Group and the estimated liabilities may turn out to be different from the actual expenditure to be incurred. The discount rate used by the Group may also be altered to reflect the changes in the market assessments of the time value of money and the risks specific to the liability, such as change of the borrowing rate and inflation rate in the market. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation will be recognised at the appropriate discount rate.

***(v) Recognition of deferred tax assets***

Deferred tax assets in respect of unused tax losses and tax credit carried forward and deductible temporary differences are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the balance sheet date. In determining the carrying amounts of deferred assets, expected taxable profits are estimated which involves a number of assumptions relating to the operating environment of the Group and require a significant level of judgement exercised by the directors. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised and hence the net profit in the future years.

***(vi) Capitalised stripping costs***

Production stripping costs can be incurred both in relation to the production of inventory in that period and the creation of improved access and mining flexibility in relation to ore to be mined in the future. The former are included as part of the costs of inventory, while the latter are capitalised as stripping activity asset, where certain criteria are met. Significant judgement is required to distinguish between the production stripping that related to the extraction of inventory and what relates to the creation of stripping activity asset.

Once the Group has identified its production stripping for each surface mining operation, it identifies the separate components of the ore bodies for each of its mining operations. An identifiable component is a specific volume of the ore body that is made more accessible by the stripping activity. Significant judgement is required to identify and define these components, and also to determine the expected volumes of waste to be stripped and ore to be mined in each of these components. These assessments are undertaken for each individual mining operation based on the information available in the mine plan. The mine plans and, therefore, the identification of components, will vary between mines for a number of reasons. These include, but are not limited to, the type of commodity, the geological characteristics of the ore body, the geographical location and/or financial considerations.

*(Expressed in Renminbi unless otherwise stated)*

## 3 ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

### (a) Critical accounting judgements in applying the Group's accounting policies *(continued)*

**(vi) *Capitalised stripping costs*** *(continued)*

Judgement is also required to identify a suitable production measure to be used to allocation production stripping costs between inventory and any stripping activity asset for each component. The Group considers that the ratio of the expected volume of waste to be stripped for an expected volume of ore to be mined for a specific component of the ore body, the most suitable production measure.

**(vii) *Exploration and evaluation expenditure***

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement in determining whether it is likely that future economic benefits will flow to the Group. It requires management to make certain estimates and assumptions about future events or circumstances, in particular, whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalised is written off in profit or loss in the period when the new information becomes available.

### (b) Sources of estimation uncertainty

Other than requiring critical accounting judgements, assumptions concerning the future and other major sources of estimation uncertainty at the end of the reporting period are required in relation to the Group's accounting policies on "obligations for reclamation" and "recognition of deferred tax assets". Information about the assumptions and their risk factors are set out in notes 3(a)(iv) and (v).

## 4 TURNOVER

The Group is principally engaged in the mining, processing and sale of iron ore, preliminary concentrates and iron ore concentrates. Revenue represents the sales value of goods sold to customers exclusive of value added tax. The amount of each significant category of revenue recognised is as follows:

| | **2013<br>RMB'000** | 2012<br>RMB'000 |
|---|---|---|
| Iron ore concentrates | **702,093** | 315,180 |
| Preliminary concentrates | **116,029** | 71,445 |
| Iron ore | **467,503** | 193,856 |
| Others | **453** | 1,092 |
| | **1,286,078** | 581,573 |

The Group's customer base is diversified and includes only one customer with whom transactions have exceeded 10% of the Group's turnover. During the year ended 31 December 2013, sales to this customer amounted to RMB320,726,000 (2012: RMB34,944,000).

Details of the concentration of credit risk arising from the Group's customers are set out in note 29(a).

*(Expressed in Renminbi unless otherwise stated)*

## 5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

### (a) Net finance costs:

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Interest income | **(280)** | (115) |
| **Finance income** | **(280)** | (115) |
| Interest on interest-bearing borrowings | **9,954** | – |
| Unwinding of interest on | | |
| – long-term payables | **13,562** | 4,751 |
| – accrued reclamation obligations *(note 27)* | **3,058** | 2,870 |
| **Finance costs** | **26,574** | 7,621 |
| **Net finance costs** | **26,294** | 7,506 |

For the year ended 31 December 2013, no borrowing costs were capitalised in relation to construction in progress (2012: RMB nil).

### (b) Staff costs:

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Salaries, wages, bonuses and benefits | **61,975** | 54,272 |
| Retirement scheme contributions | **7,365** | 5,136 |
| | **69,340** | 59,408 |

Employees of the Group are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group contributes funds at a rate of 12% of the average employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees.

The Group has no other obligations for payment of retirement and other post-retirement benefits of employees other than the contribution described above.

*(Expressed in Renminbi unless otherwise stated)*

## 5 PROFIT BEFORE TAXATION *(continued)*

### (c) Other items:

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Cost of inventories# | **575,255** | 393,149 |
| Depreciation and amortisation | **70,502** | 39,522 |
| Auditors' remuneration | | |
| – audit services | **1,800** | 71 |
| Listing expenses | **30,477** | – |
| Net losses on disposal of property, plant and equipment | **440** | 8,086 |
| Operating lease charges | **573** | 555 |

# Cost of inventories includes RMB108,506,000 for the year ended 31 December 2013 (2012: RMB54,980,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges which are also included in the respective amounts disclosed separately above for each of these types of expenses.

During the year ended 31 December 2013, production stripping costs recognised in profit and loss as part of cost of inventories amounted to RMB266,722,000 (2012: RMB246,169,000).

## 6 INCOME TAX

### (a) Income tax in the consolidated statement of comprehensive income represents:

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| **Current tax** | | |
| Provision for the year *(note 25(a))* | **154,131** | 23,604 |
| **Deferred tax** | | |
| Origination and reversal of temporary difference *(note 25(b))* | **(7,472)** | (938) |
| | **146,659** | 22,666 |

*(Expressed in Renminbi unless otherwise stated)*

## 6 INCOME TAX *(continued)*

### (b) Reconciliation between tax expense and accounting profit at applicable tax rate:

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Profit before taxation | **572,271** | 77,460 |
| Notional tax on profit before taxation, calculated at tax rate of 25% *(note i)* | **143,068** | 19,365 |
| Tax effect of non-deductible items | **64** | 241 |
| Tax effect of unused tax losses not recognised *(note 25(c))* | **3,527** | 3,060 |
| Actual tax expense | **146,659** | 22,666 |

*Notes:*

(i) The PRC Enterprise Income Tax rate is adopted as the Group's operations are mainly conducted in the PRC. Pursuant to the prevailing income tax rules and regulations of PRC, the PRC Enterprise Income Tax is at a rate of 25%.

(ii) Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands. The Group is not subject to Hong Kong profits tax as it has no assessable income arising in or derived from Hong Kong during the years presented.

(iii) According to the PRC Enterprise Income Tax Law and its implementation rules, dividends receivable by non-PRC-resident corporate investors from PRC-resident enterprises for profits earned since 1 January 2008 are subject to withholding income tax at a rate of 10%, unless reduced by tax treaties or arrangements. Undistributed profits earned prior to 1 January 2008 are exempted from such withholding tax.

## 7 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for the year ended 31 December 2013 of RMB397,513,000 (2012: RMB48,450,000) and the weighted average number of shares in issue during the year ended 31 December 2013 of 1,160,189,359 shares (2012: 1,125,000,000 shares, on the assumption that a total of 1,125,000,000 shares of the Company are in issue pursuant to the capitalisation issue (see note 28(c))), pursuant to the capitalisation issue of 1,125,000,000 shares on 3 November 2013, the initial public offering of 375,000,000 shares on 28 November 2013 and the partial exercise of over-allotment option of 7,843,000 shares on 20 December 2013, respectively (see note 28(c)).

The shares issued under the initial public offering and the partial exercise of over-allotment option are included in the weighted average number of shares in issue during the year from their respective date of issuance.

The Company did not have any potential dilutive shares for the years presented. Accordingly, diluted earnings per share is the same as basic earnings per share.

*(Expressed in Renminbi unless otherwise stated)*

## 8 DIRECTORS' REMUNERATION

Details of the directors' remuneration disclosed are as follows:

| | 2013 | | | | |
|---|---|---|---|---|---|
| | Directors' fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Discretionary bonuses RMB'000 | Retirement scheme contributions RMB'000 | Total RMB'000 |
| *Executive directors* | | | | | |
| Mr. Li Yanjun *(Chairman)* | – | 380 | – | 11 | 391 |
| Mr. Leung Hongying Li Ziwei *(Vice Chairman)* | – | 157 | – | – | 157 |
| Mr. Xia Guoan | – | 428 | – | – | 428 |
| Mr. Sun Jianhua | – | 95 | – | 34 | 129 |
| Mr. Huang Kai | – | 255 | – | 28 | 283 |
| Mr. Tu Quanping | – | 358 | – | 39 | 397 |
| *Independent non-executive directors* | | | | | |
| Mr. Ge Xinjian | 16 | – | – | – | 16 |
| Mr. Meng Likun | 16 | – | – | – | 16 |
| Mr. Kong Chi Mo | 24 | – | – | – | 24 |
| Total | 56 | 1,673 | – | 112 | 1,841 |

| | 2012 | | | | |
|---|---|---|---|---|---|
| | Directors' fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Discretionary bonuses RMB'000 | Retirement scheme contributions RMB'000 | Total RMB'000 |
| *Executive directors* | | | | | |
| Mr. Li Yanjun *(Chairman)* | – | – | – | – | – |
| Mr. Leung Hongying Li Ziwei *(Vice Chairman)* | – | – | – | – | – |
| Mr. Xia Guoan | – | 344 | – | – | 344 |
| Mr. Sun Jianhua | – | 81 | – | – | 81 |
| Mr. Huang Kai | – | 183 | – | – | 183 |
| Mr. Tu Quanping | – | 285 | – | – | 285 |
| Total | – | 893 | – | – | 893 |

No emoluments have been paid to the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the years presented.

*(Expressed in Renminbi unless otherwise stated)*

## 9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The number of directors and non-directors included in the five highest paid individuals are set forth below:

| | 2013 | 2012 |
|---|---|---|
| Directors | **2** | 2 |
| Non-directors | **3** | 3 |
| | **5** | 5 |

The emoluments of the directors are disclosed in note 8. The aggregate of the emoluments in respect of the remaining highest paid individuals are as follows:

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Basic salaries, allowances and benefits in kind | **1,227** | 662 |
| Discretionary bonuses | **–** | – |
| Retirement scheme contributions | **94** | – |
| | **1,321** | 662 |

The emoluments of the individuals with the highest emoluments are within the following band:

| | 2013 | 2012 |
|---|---|---|
| Nil to HKD1,000,000 | **5** | 5 |

No emoluments have been paid to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the years presented.

## 10 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to the equity shareholders of the Company includes loss of RMB13,121,000 (2012: RMB nil) which has been dealt with in the financial statements of the Company.

## 11 OTHER COMPREHENSIVE INCOME

The components of other comprehensive income do not have any significant tax effect for the year ended 31 December 2013.

## 12 SEGMENT REPORTING

The Group has one business segment, the mining, processing, and sale of iron ore, preliminary concentrates and iron ore concentrates. All of its customers are located in China. Based on information reported to the chief operating decision maker for the purpose of resource allocation and performance assessment, the Group's only operating segment is the mining, processing, and sale of iron ore and iron ore products. Accordingly, no additional business and geographical segment information are presented.

*(Expressed in Renminbi unless otherwise stated)*

## 13 PROPERTY, PLANT AND EQUIPMENT, NET

| | Buildings and plants RMB'000 | Machinery and equipment RMB'000 | Motor vehicles RMB'000 | Office equipment RMB'000 | Mine properties RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **Cost:** | | | | | | |
| At 1 January 2012 | 43,114 | 88,895 | 19,767 | 1,516 | 39,115 | 192,407 |
| Additions | 1,187 | 14,032 | 5,971 | 1,109 | – | 22,299 |
| Disposals | (5,372) | (9,774) | (2,285) | (419) | – | (17,850) |
| Transferred from construction in progress *(note 14)* | 77,991 | 58,280 | – | – | – | 136,271 |
| At 31 December 2012 | 116,920 | 151,433 | 23,453 | 2,206 | 39,115 | 333,127 |
| At 1 January 2013 | **116,920** | **151,433** | **23,453** | **2,206** | **39,115** | **333,127** |
| Additions | **9,654** | **21,569** | **3,286** | **966** | **–** | **35,475** |
| Disposals | **(256)** | **(442)** | **(1,436)** | **(48)** | **–** | **(2,182)** |
| Transferred from construction in progress *(note 14)* | **133,396** | **45,894** | **3** | **97** | **–** | **179,390** |
| At 31 December 2013 | **259,714** | **218,454** | **25,306** | **3,221** | **39,115** | **545,810** |
| **Accumulated depreciation and impairment losses:** | | | | | | |
| At 1 January 2012 | (11,003) | (30,355) | (6,588) | (496) | (2,051) | (50,493) |
| Charge for the year | (2,105) | (11,592) | (3,937) | (467) | (1,069) | (19,170) |
| Written back on disposals | 882 | 4,600 | 2,054 | 340 | – | 7,876 |
| At 31 December 2012 | (12,226) | (37,347) | (8,471) | (623) | (3,120) | (61,787) |
| At 1 January 2013 | **(12,226)** | **(37,347)** | **(8,471)** | **(623)** | **(3,120)** | **(61,787)** |
| Charge for the year | **(6,839)** | **(19,256)** | **(4,718)** | **(1,208)** | **(2,539)** | **(34,560)** |
| Written back on disposals | **118** | **226** | **894** | **28** | **–** | **1,266** |
| At 31 December 2013 | **(18,947)** | **(56,377)** | **(12,295)** | **(1,803)** | **(5,659)** | **(95,081)** |
| **Net carrying value:** | | | | | | |
| At 31 December 2013 | **240,767** | **162,077** | **13,011** | **1,418** | **33,456** | **450,729** |
| At 31 December 2012 | 104,694 | 114,086 | 14,982 | 1,583 | 35,995 | 271,340 |

The Group's property, plant and equipment are substantially located in the PRC. Up to the issue of these financial statements, the Group is still in the process of applying for the title certificates of certain of its buildings and plants with carrying amount of approximately RMB55,625,000 (31 December 2012: RMB51,690,000). The directors are of the opinion that the Group is entitled to lawfully and validly occupy or use of the above-mentioned properties.

As at 31 December 2013, mine properties include RMB nil of capitalised stripping activity asset (31 December 2012: RMB nil).

*(Expressed in Renminbi unless otherwise stated)*

## 14 CONSTRUCTION IN PROGRESS

| | Stripping activity asset RMB'000 | Other property and plant under construction/ installation RMB'000 | Total RMB'000 |
|---|---|---|---|
| At 1 January 2012 | – | 108,849 | 108,849 |
| Additions | – | 189,002 | 189,002 |
| Transferred to property, plant and equipment *(note 13)* | – | (136,271) | (136,271) |
| At 31 December 2012 | – | 161,580 | 161,580 |
| **At 1 January 2013** | **–** | **161,580** | **161,580** |
| Additions | **165,777** | **19,025** | **184,802** |
| Transferred to property, plant and equipment *(note 13)* | **–** | **(179,390)** | **(179,390)** |
| **At 31 December 2013** | **165,777** | **1,215** | **166,992** |

## 15 LEASE PREPAYMENTS

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| **Cost:** | | |
| At 1 January | **179,579** | 146,273 |
| Additions | **17,455** | 33,306 |
| At 31 December | **197,034** | 179,579 |
| **Accumulated amortisation:** | | |
| At 1 January | **(25,283)** | (12,616) |
| Charge for the year | **(14,256)** | (12,667) |
| At 31 December | **(39,539)** | (25,283) |
| **Net carrying value:** | **157,495** | 154,296 |

Lease prepayments comprise interests in leasehold land held for own use under operating leases located in the PRC, with original lease periods from 5 to 50 years. Up to the issue of these financial statements, the Group is still in the process of applying for the title certificates of certain of its lease prepayments for land use rights with carrying amount of approximately RMB149,287,000 (31 December 2012: RMB146,170,000). The directors are of the opinion that the Group is entitled to lawfully and validly occupy or use of the above mentioned leasehold land.

*(Expressed in Renminbi unless otherwise stated)*

## 15 LEASE PREPAYMENTS *(continued)*

The analysis of net carrying value of leasehold land is as follows:

| | **2013 RMB'000** | 2012 RMB'000 |
|---|---|---|
| In the PRC: | | |
| – short leases | **26,856** | 20,094 |
| – medium-term leases | **130,639** | 134,202 |
| At 31 December | **157,495** | 154,296 |

## 16 INTANGIBLE ASSETS

| | **2013 RMB'000** | 2012 RMB'000 |
|---|---|---|
| **Cost:** | | |
| At 1 January | **228,172** | 85,842 |
| Additions | **223,247** | 142,330 |
| At 31 December | **451,419** | 228,172 |
| **Accumulated amortisation:** | | |
| At 1 January | **(9,688)** | (2,003) |
| Charge for the year | **(21,686)** | (7,685) |
| At 31 December | **(31,374)** | (9,688) |
| **Net carrying value:** | **420,045** | 218,484 |

Intangible assets represent the mining right acquired by Laiyuan County Jiheng Mining Co., Ltd. from Hebei Provincial Department of Land and Resources in 2012, the mining rights acquired by Laiyuan County Jingyuancheng Mining Co., Ltd. and Laiyuan County Xinxin Mining Co., Ltd. from Hebei Provincial Department of Land and Resources in 2013, and the premium paid in relation to obtaining the mining rights by Laiyuan County Jingyuancheng Mining Co., Ltd. from nearby iron ore mines in 2010 and 2011.

During the year ended 31 December 2013, the Group acquired the mining rights from Hebei Provincial Department of Land and Resources at a total consideration of RMB223,247,000 (2012: RMB142,330,000).

As at 31 December 2013, the Group's borrowings were secured by the mining right of Laiyuan County Jiheng Mining Co., Ltd. with carrying amount of approximately RMB123,297,000 (31 December 2012: RMB nil).

*(Expressed in Renminbi unless otherwise stated)*

## 17 INVESTMENT IN A SUBSIDIARY

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Unlisted shares, at cost | **150,576** | 150,576 |

Particular of subsidiaries as at 31 December 2013 are as follows:

| Name of Company | Place of incorporation/ establishment and type of PRC legal entity | Particulars of issued and paid-up capital | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by a subsidiary | Principal activities |
|---|---|---|---|---|---|---|
| Hengshi Development International Limited 恒實發展國際有限公司 | Hong Kong | 100 shares of HK$1.00 each | 100% | 100% | – | Investment holding |
| Sichuan Panshi Industrial Co., Ltd.# 四川盤實實業有限公司 | PRC, Limited Liability Company | RMB150,000,000 | 100% | – | 100% | Investment holding |
| Sichuan Hengwen Industrial Co., Ltd.# 四川恒穩實業有限公司 | PRC, Limited Liability Company | RMB120,000,000 | 100% | – | 100% | Investment holding |
| Laiyuan County Aowei Mining holding Investments Co., Ltd.# 淶源縣奧威礦業投資有限公司 | PRC, Limited Liability Company | RMB120,000,000 | 100% | – | 100% | Investment holding |
| Laiyuan County Jingyuancheng Mining Co., Ltd.# 淶源縣京源城礦業有限公司 | PRC, Limited Liability Company | RMB80,000,000 | 100% | – | 100% | Mining, processing and trading of iron ore products |
| Laiyuan Xinxin Mining Co., Ltd.# 淶源鑫鑫礦業有限公司 | PRC, Limited Liability Company | RMB50,000,000 | 100% | – | 100% | Mining, processing and trading of iron ore products |
| Laiyuan County Jiheng Mining Co., Ltd.# 淶源縣冀恒礦業有限公司 | PRC, Limited Liability Company | RMB50,000,000 | 90% | – | 90% | Mining, processing and trading of iron ore products |

# The official name of the entity is in Chinese. The English names are for identification purpose only.

*(Expressed in Renminbi unless otherwise stated)*

## 18 LONG-TERM RECEIVABLES

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Environmental reclamation deposits | **33,960** | 11,420 |

The balances represent environmental reclamation deposits placed with the government in respect of the Group's reclamation obligations for the closure of mines and are not expected to be refunded within the next 12 months.

## 19 PREPAYMENTS

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Prepayments in connection with construction work, equipment purchases and others | **3,257** | 5,291 |

## 20 INVENTORIES

### (a) Inventories in the consolidated balance sheet comprise:

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Weakly mineralised wall rock# | **10,977** | 116,857 |
| Iron ore | **1,826** | 1,460 |
| Preliminary concentrates | **7,342** | 4,138 |
| Iron ore concentrates | **3,302** | 24,976 |
| | **23,447** | 147,431 |
| Consumables and supplies | **17,788** | 12,640 |
| | **41,235** | 160,071 |

# Weakly mineralised wall rock represents sub-graded mineral materials.

### (b) The analysis of the amount of inventories recognised as an expense and included in the consolidated statement of comprehensive income is as follows:

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Carrying amount of inventories sold | **575,255** | 393,149 |

*(Expressed in Renminbi unless otherwise stated)*

## 21 TRADE AND OTHER RECEIVABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2013 RMB'000** | 2012 RMB'000 | **2013 RMB'000** | 2012 RMB'000 |
| Accounts receivable | **25,273** | 12,152 | **–** | – |
| Bills receivable | **29,710** | – | **–** | – |
| Trade receivables *(note (a))* | **54,983** | 12,152 | **–** | – |
| Other receivables *(note(d))* | **28,666** | 27,249 | **3,015** | – |
| | **83,649** | 39,401 | **3,015** | – |

### (a) Ageing analysis

The ageing analysis of trade receivables is as follows:

| | **2013 RMB'000** | 2012 RMB'000 |
|---|---|---|
| Current | **54,983** | – |
| Within 3 months | **–** | 12,152 |
| | **54,983** | 12,152 |

### (b) Impairment of trade receivables

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivables directly (see note 2(g)(i)).

### (c) Trade receivables that are not impaired

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

| | **2013 RMB'000** | 2012 RMB'000 |
|---|---|---|
| Neither past due nor impaired | **54,983** | – |
| Within 3 months | **–** | 12,152 |
| | **54,983** | 12,152 |

*(Expressed in Renminbi unless otherwise stated)*

## 21 TRADE AND OTHER RECEIVABLES *(continued)*

### (c) Trade receivables that are not impaired *(continued)*

Receivables that were past due but not impaired relate to certain independent parties that have a good track record with the Group. Based on past experience, management believes that no impairment allowances are necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group seeks to maintain tight control over its outstanding trade receivables in order to minimise credit risk. Overdue balances are regularly monitored by management.

### (d) Other receivables

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Prepayments and deposits *(note (i))* | **24,057** | 15,018 | **–** | – |
| Income tax recoverable *(note 25(a))* | **3,191** | 8,648 | **–** | – |
| Value added tax receivables | **–** | 2,554 | **–** | – |
| Others | **1,418** | 1,029 | **3,015** | – |
| | **28,666** | 27,249 | **3,015** | – |

*Note:*

(i) As at 31 December 2013, prepayments and deposits mainly represented prepayments made to the Group's suppliers.

As at 31 December 2013, other than deposits amounted to RMB1,935,000 (31 December 2012: RMB1,485,000), which are included in prepayments and deposits, all other receivables were aged within one year and were expected to be recovered or expensed off within one year.

## 22 CASH AND CASH EQUIVALENTS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Cash in hand | **380** | 271 | **10** | – |
| Cash at banks | **987,182** | 22,397 | **924,898** | – |
| | **987,562** | 22,668 | **924,908** | – |

*(Expressed in Renminbi unless otherwise stated)*

## 23 BORROWINGS

### (a) The Group's short-term interest-bearing borrowings comprise:

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Current portion of long-term borrowings | | |
| – secured bank loans *(note (i))* | 40,000 | – |

### (b) The Group's long-term interest-bearing borrowings comprise:

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Bank loans – secured *(note (i))* | 160,000 | – |
| Entrusted bank loans *(note (ii))* | 110,000 | – |
| | 270,000 | – |

*Notes:*

(i) As at 31 December 2013, bank loans of the Group were denominated in RMB and bore an interest of 6.15% per annum. The borrowings were secured by the mining right of Laiyuan County Jiheng Mining Co., Ltd. with carrying amount of approximately RMB123,297,000 (31 December 2012: RMB nil) (see note 16).

(ii) As at 31 December 2013, entrusted bank loans of the Group were denominated in RMB and bore an interest of 6.15% per annum.

### (c) The Group's borrowings were repayable as follows:

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Within 1 year | 40,000 | – |
| After 1 year but within 2 years | 270,000 | – |
| | 310,000 | – |

As at 31 December 2013, the Group had banking facilities secured by the mining right of Laiyuan County Jiheng Mining Co., Ltd. with a carrying amount of approximately RMB123,297,000 (31 December 2012: RMB nil) (see note 16). Such banking facilities amounted to RMB220,000,000 (31 December 2012: RMB nil). The facilities were utilised to the extent of RMB200,000,000 (31 December 2012: RMB nil).

As at 31 December 2013, no borrowing from bank was subject to financial covenants.

*(Expressed in Renminbi unless otherwise stated)*

## 24 TRADE AND OTHER PAYABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2013 RMB'000** | 2012 RMB'000 | **2013 RMB'000** | 2012 RMB'000 |
| Trade payables *(note (i))* | **53,026** | 58,936 | **–** | – |
| Receipt in advance *(note (ii))* | **15,774** | 36,069 | **–** | – |
| Payables for purchase of equipment | **67,247** | 88,618 | **–** | – |
| Other taxes payable | **13,153** | 6,587 | **–** | – |
| Others *(note (iii))* | **52,362** | 47,595 | **18,212** | – |
| | **201,562** | 237,805 | **18,212** | – |

*Notes:*

(i) All trade payables are due and payable on presentation or within one year.

(ii) Receipts in advance represent payments in advance made by the Group's customers in accordance with the terms set out in respective sales agreements.

(iii) Others mainly represent accrued expenses, payables for staff related costs and other deposits.

As at 31 December 2013, all of the other trade and other payables were expected to be settled within one year or are repayable on demand.

## 25 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

### (a) Income tax payable in the consolidated balance sheet represents:

| | **2013 RMB'000** | 2012 RMB'000 |
|---|---|---|
| Net income tax (recoverable)/payable as at 1 January | **(6,426)** | 12,331 |
| Provision for the year *(note 6(a))* | **154,131** | 23,604 |
| Income tax paid | **(138,978)** | (42,361) |
| Net income tax payable/(recoverable) as at 31 December | **8,727** | (6,426) |
| Represents: | | |
| Income tax payable | **11,918** | 2,222 |
| Income tax recoverable *(note 21(d))* | **(3,191)** | (8,648) |
| Net income tax payable/(recoverable) as at 31 December | **8,727** | (6,426) |

*(Expressed in Renminbi unless otherwise stated)*

## 25 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET *(continued)*

### (b) Deferred tax assets and liabilities recognised

The components of deferred tax assets and liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

| | Accrued payroll RMB'000 | Impairment losses on property, plant and equipment RMB'000 | Long-term payables RMB'000 | Safety production fund RMB'000 | Depreciation and amortisation RMB'000 | Accrued reclamation obligations RMB'000 | Tax losses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2012 | 1,752 | 1,316 | – | (3,867) | (145) | 1,175 | – | 231 |
| Charged/(credited) to profit or loss *(note 6(a))* | 394 | – | 1,188 | 809 | (2,175) | 718 | 4 | 938 |
| At 31 December 2012 | 2,146 | 1,316 | 1,188 | (3,058) | (2,320) | 1,893 | 4 | 1,169 |
| At 1 January 2013 | **2,146** | **1,316** | **1,188** | **(3,058)** | **(2,320)** | **1,893** | **4** | **1,169** |
| Charged/(credited) to profit or loss *(note 6(a))* | **1,524** | **–** | **2,936** | **773** | **2,216** | **27** | **(4)** | **7,472** |
| At 31 December 2013 | **3,670** | **1,316** | **4,124** | **(2,285)** | **(104)** | **1,920** | **–** | **8,641** |

An analysis of deferred tax assets and liabilities recognised in the consolidated balance sheet for the years presented are as follows:

| | **2013 RMB'000** | 2012 RMB'000 |
|---|---|---|
| Net deferred tax assets recognised in the consolidated balance sheet | **8,641** | 1,225 |
| Net deferred tax liabilities recognised in the consolidated balance sheet | **–** | (56) |
| | **8,641** | 1,169 |

*(Expressed in Renminbi unless otherwise stated)*

## 25 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET *(continued)*

### (c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(n), the Group has not recognised deferred tax assets in respect of tax losses of RMB56,971,000 as at 31 December 2013 (31 December 2012: RMB42,864,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. Included in the total amount of tax losses are RMB43,733,000 (31 December 2012: RMB42,755,000) in relation to Group entities operated in the PRC, for which the tax losses can be carried forward for five years from the year incurred.

The year of expiry of tax losses not recognised is as follows:

| | **2013 RMB'000** | 2012 RMB'000 |
|---|---|---|
| Year of expiry | | |
| 2016 | **30,516** | 30,516 |
| 2017 | **12,239** | 12,239 |
| 2018 | **978** | – |
| | **43,733** | 42,755 |

### (d) Deferred tax liabilities not recognised

As at 31 December 2013, temporary differences related to the undistributed profits of subsidiaries amounted to RMB542,682,000 (31 December 2012: RMB192,218,000). Deferred tax liabilities of RMB27,134,000 (31 December 2012: RMB9,611,000) have not been recognised at the respective balance sheet dates in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

## 26 LONG-TERM PAYABLES

| | **2013 RMB'000** | 2012 RMB'000 |
|---|---|---|
| Payables for acquiring mining rights *(note (i))* | **270,519** | 111,480 |
| Less: Current portion of long-term payables | **51,740** | 21,026 |
| | **218,779** | 90,454 |

*Note:*

(i) In March 2012, the Group acquired a mining right from Hebei Provincial Department of Land and Resources for a consideration of RMB142,330,000 that are repayable over five years from 2012.

In January 2013, the Group acquired three mining rights from Hebei Provincial Department of Land and Resources for an aggregate consideration of RMB223,247,000 that are repayable over five to seven years from 2013.

The carrying amounts of the mining right payables have been determined using a discount rate of 5.98% per annum.

*(Expressed in Renminbi unless otherwise stated)*

## 26 LONG-TERM PAYABLES *(continued)*

The Group's long-term payables were repayable as follows:

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Within 1 year | **51,740** | 21,026 |
| After 1 year but within 2 years | **51,703** | 21,029 |
| After 2 years but within 5 years | **137,323** | 69,425 |
| After 5 years | **29,753** | – |
| | **270,519** | 111,480 |

## 27 ACCRUED RECLAMATION OBLIGATIONS

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| At 1 January | **46,688** | 43,818 |
| Accretion expenses *(note 5(a))* | **3,058** | 2,870 |
| Utilised during the year | **(2,953)** | – |
| At 31 December | **46,793** | 46,688 |
| Less: current portion of accrued reclamation obligations | **4,434** | 2,935 |
| | **42,359** | 43,753 |

The accrual for reclamation costs has been determined based on management's best estimates. The estimate of the associated costs may be subject to change in the near term when the reclamation on the land from current mining activities becomes apparent in future periods. At the balance sheet date, the Group reassessed the estimated costs and adjusted the accrued reclamation obligations, where necessary. The Group's management believes that the accrued reclamation obligations as at the respective balance sheet dates are adequate and appropriate. The accrual is based on estimates and therefore, the ultimate liability may exceed or be less than such estimates.

*(Expressed in Renminbi unless otherwise stated)*

## 28 CAPITAL, RESERVES AND DIVIDENDS

### (a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

| | Share capital RMB'000 *(note 28(c))* | Share premium RMB'000 *(note 28(d))* | Exchange reserve RMB'000 *(note 28(d))* | Other reserve RMB'000 *(note 28(d))* | Retained earnings RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2012** | 1 | – | – | 150,576 | – | 150,577 |
| **Changes in equity:** | | | | | | |
| Total comprehensive income | – | – | – | – | – | – |
| **Balance at 31 December 2012** | 1 | – | – | 150,576 | – | 150,577 |
| **Balance at 1 January 2013** | **1** | **–** | **–** | **150,576** | **–** | **150,577** |
| **Changes in equity:** | | | | | | |
| Profit for the year | **–** | **–** | **–** | **–** | **(13,121)** | **(13,121)** |
| Other comprehensive income | **–** | **–** | **(5,597)** | **–** | **–** | **(5,597)** |
| Total comprehensive income | **–** | **–** | **(5,597)** | **–** | **(13,121)** | **(18,718)** |
| Issuance of shares | **119** | **968,979** | **–** | **–** | **–** | **969,098** |
| Share issuance costs | **–** | **(40,670)** | **–** | **–** | **–** | **(40,670)** |
| **Balance at 31 December 2013** | **120** | **928,309** | **(5,597)** | **150,576** | **(13,121)** | **1,060,287** |

### (b) Dividends

The board of directors of the Company does not recommend the payment of a final dividend in respect of the year ended 31 December 2013.

## 28 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

### (c) Share capital

The Company was incorporated in the BVI on 14 January 2011 and redomiciled to the Cayman Islands on 23 May 2013 with total authorised and issued share capital of 50,000 shares and 100 shares of USD1.00 each, respectively.

On 20 August 2013, Hengshi International Investments Limited ("Hengshi Investments") transferred three shares in the Company to Aowei International Developments Limited ("Aowei Developments"). Pursuant to written resolutions of the Company's shareholders passed on 3 November 2013, the Company underwent a capitalisation issue under which the authorised share capital of the Company was increased from USD50,000 divided into 50,000 shares with a par value of USD1.00 each to USD50,000 divided into 50,000 shares with a par value of USD1.00 each and HKD1,000,000 divided into 10,000,000,000 shares with a par value of HKD0.0001 each, by the creation of an additional 10,000,000,000 shares with a par value of HKD0.0001 each to rank pari passu in all respects with the existing shares. The Company then issued 1,091,250,000 and 33,750,000 shares (1,125,000,000 shares in total) with a par value of HKD0.0001 each, to Hengshi Investments and Aowei Developments, respectively. The Company repurchased 97 and three shares with a par value of USD1.00 each in issue, from Hengshi Investments and Aowei Developments, respectively. Immediately following the above being effected, the Company cancelled all authorised USD ordinary shares. As a result, the authorised share capital of the Company became HKD1,000,000 divided into 10,000,000,000 shares with a par value of HKD0.0001 each.

On 28 November 2013, the Company issued 375,000,000 shares (without the exercise of over-allotment option as set out in the Prospectus) with a par value of HKD0.0001 each, at a price of HKD3.20 per share by way of an initial public offering. On 20 December 2013, the Company partially exercised the over-allotment option as set out in the Prospectus and issued an aggregate of 7,843,000 shares with a par value of HKD0.0001 each, at a price of HKD3.20 per share. As at 31 December 2013, a total of 1,507,843,000 shares have been listed on the Stock Exchange.

**Ordinary shares, issued and fully paid:**

| | 2013 | | |
|---|---|---|---|
| | No of shares | HKD'000 | RMB'000 equivalent |
| Ordinary shares | | | |
| – authorised | **10,000,000,000** | **1,000** | **795** |
| – issued and fully paid | **1,507,843,000** | **151** | **120** |

| | 2012 | | |
|---|---|---|---|
| | No of shares | USD'000 | RMB'000 equivalent |
| Ordinary shares | | | |
| – authorised | 50,000 | 50 | 330 |
| – issued and fully paid | 100 | 0.1 | 1 |

*(Expressed in Renminbi unless otherwise stated)*

## 28 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

### (d) Nature and purpose of reserves

*(i)* ***Share premium***

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary courses of business.

*(ii)* ***Statutory surplus reserve***

In accordance with the relevant PRC laws and regulations 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 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.

*(iii)* ***Special reserve***

According to relevant PRC regulations, the Group is required to transfer an amount to special reserve for the safety production fund at fixed rates based on the production volume of iron ore or preliminary concentrates (the "maintenance and production fund"). The maintenance and production fund could be utilised when expenses or capital expenditures on production maintenance and safety measures are incurred. The amount of maintenance and production fund utilised would be transferred from the special reserve back to retained earnings.

*(iv)* ***Exchange reserve***

The exchange reserve comprises all foreign exchange adjustments arising from the translation of the HKD denominated financial statements of the Group's operations to the Group's presentation currency. The reserve is dealt with in accordance with the accounting policy set out in note 2(r).

*(v)* ***Other reserve***

Other reserve comprises the following:

– the difference between the net assets of Laiyuan County Jingyuancheng Mining Co., Ltd., Laiyuan Xinxin Mining Co., Ltd. and Laiyuan County Jiheng Mining Co., Ltd. (together the "PRC Operating Entities") and the consideration paid by the Group in exchange;

– the changes in equity arisen from the acquisition of non-controlling interests; and

– the shareholder's loans waived by the ultimate controlling party.

*(Expressed in Renminbi unless otherwise stated)*

## 28 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

### (e) Distributability of reserves

Pursuant to the Cayman Companies Law, share premium of the Company is also a distributable reserve to the shareholders. As at 31 December 2013, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB915,188,000 (31 December 2012: RMB nil).

### (f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Group defines the capital as total shareholders' equity plus loans and borrowings.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The gearing ratio (calculated as total bank and other borrowings divided by total assets) of the Group as at 31 December 2013 was 13% (31 December 2012: 0%).

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from movements in its own equity share price.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

### (a) Credit risk

The Group's credit risk is primarily attributable to cash at bank and trade and other receivables. Management monitors the exposures to these credit risks on an ongoing basis.

All of the Group's cash at bank are deposited in the reputable banks which management assessed the credit risk to be insignificant.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group generally delivers goods to its customers after receiving full payments in advance. Under certain circumstances, a credit period of up to 150 days is granted to customers that have a good track record with the Group.

Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As at 31 December 2013, 64% (31 December 2012: 100%) of trade receivables was due from the Group's five largest customers.

*(Expressed in Renminbi unless otherwise stated)*

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (b) Liquidity risk

The Group has to maintain a suitable level of liquidity to finance the daily operation, capital expenditure and repayment of borrowings. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

**31 December 2013**

| | | Contractual undiscounted cash flow | | | | |
|---|---|---|---|---|---|---|
| | Carrying amount RMB'000 | Total contractual undiscounted cash flow RMB'000 | Within 1 year or on demand RMB'000 | More than 1 year but less than 2 years RMB'000 | More than 2 years but less than 5 years RMB'000 | More than 5 years RMB'000 |
| Interest-bearing borrowings | **310,000** | **337,812** | **57,921** | **279,891** | **–** | **–** |
| Trade and other payables and amounts due to related parties | **201,562** | **201,562** | **201,562** | **–** | **–** | **–** |
| Long-term payables | **270,519** | **320,446** | **53,764** | **56,908** | **167,916** | **41,858** |
| Accrued reclamation obligations | **46,793** | **69,189** | **4,725** | **5,827** | **20,028** | **38,609** |
| Total | **828,874** | **929,009** | **317,972** | **342,626** | **187,944** | **80,467** |

31 December 2012

| | | Contractual undiscounted cash flow | | | | |
|---|---|---|---|---|---|---|
| | Carrying amount RMB'000 | Total contractual undiscounted cash flow RMB'000 | Within 1 year or on demand RMB'000 | More than 1 year but less than 2 years RMB'000 | More than 2 years but less than 5 years RMB'000 | More than 5 years RMB'000 |
| Trade and other payables and amounts due to related parties | 721,386 | 721,386 | 721,386 | – | – | – |
| Long-term payables | 111,480 | 131,497 | 21,856 | 23,166 | 86,475 | – |
| Accrued reclamation obligations | 46,688 | 72,142 | 3,127 | 4,725 | 18,539 | 45,751 |
| Total | 879,554 | 925,025 | 746,369 | 27,891 | 105,014 | 45,751 |

*(Expressed in Renminbi unless otherwise stated)*

## 29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (c) Interest rate risk

The group's interest rate risk arises primarily from its short-term and long-term borrowings carrying interests at fixed rates exposed the Group to fair value interest rate risk. The Group manages its exposure to interest rate risk by maintaining high proportion of fixed rate borrowings. Details of the interest rates are disclosed in note 23.

### (d) Fair values

As at 31 December 2013 and 2012, no financial instrument of the Group was measured at fair value across the three levels of the fair value hierarchy defined in IFRS 7, Financial Instruments: Disclosures.

In respect of the Group's cash and cash equivalents, trade and other receivables (inclusive of amounts due from related parties), and trade and other payables (inclusive of amounts due to related parties), the carrying amounts approximated fair values as at 31 December 2013 and 2012 due to the relatively short term nature of these financial instruments.

In respect of the Group's borrowings, the carrying amounts were not materially different from their fair values as at 31 December 2013 and 2012. The fair value of borrowings were estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

The aggregate carrying amounts of other financial liabilities carried on the consolidated balance sheet were not materially different from their fair values as at 31 December 2013 and 2012.

## 30 COMMITMENTS AND CONTINGENCIES

### (a) Capital commitments

Capital commitments outstanding at 31 December 2013 not provided for in the financial statements were as follows:

| | **2013 RMB'000** | 2012 RMB'000 |
|---|---|---|
| Contracted for | | |
| – property, plant and equipment | **–** | 11,950 |
| Authorised but not contracted for | | |
| – property, plant and equipment | **302,287** | 48 |
| – stripping activity asset | **180,631** | – |
| – exploration and evaluation asset | **–** | – |
| | **482,918** | 48 |
| | **482,918** | 11,998 |

*(Expressed in Renminbi unless otherwise stated)*

## 30 COMMITMENTS AND CONTINGENCIES *(continued)*

### (b) Operating lease commitments

(i) As at 31 December 3013, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

| | **2013 RMB'000** | 2012 RMB'000 |
|---|---|---|
| Within 1 year | **2,460** | 361 |
| After 1 year but within 5 years | **4,692** | 1,349 |
| | **7,152** | 1,710 |

(ii) The Group leases certain buildings through operating leases. These operating leases do not contain provisions for contingent lease rentals. None of the agreements contain escalation provisions that may require higher future rental payments.

### (c) Environmental contingencies

To date, the Group has not incurred any significant expenditure for environment remediation and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. Laws and regulations protecting the environment have generally become more stringent in recent years and could become more stringent in the future. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include:

(i) the exact nature and extent of the contamination at the mines and processing plants;

(ii) the extent of required cleanup efforts;

(iii) varying costs of alternative remediation strategies;

(iv) changes in environmental remediation requirements; and

(v) the identification of new remediation sites.

The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed for future environmental legislation cannot be reasonably estimated at present and could be material.

### (d) Governmental and regulatory levies

The PRC Operating Entities are subject to certain levies (mineral resources compensation, water and soil loss compensation, pollutant discharge fee and etc.) imposed by relevant government authorities in accordance with the relevant PRC laws and regulations. Under such laws and regulations, the PRC Operating Entities have fully fulfilled their responsibilities in paying the respective levies during the years presented. In the opinion of the directors, based on legal advice, the Group had no other material obligations or liabilities of such levies as at 31 December 2013.

*(Expressed in Renminbi unless otherwise stated)*

## 31 MATERIAL RELATED PARTY TRANSACTIONS

### (a) Transactions with related parties

During the years presented, the Group entered into transactions with the following related parties.

| Name of party | Relationship |
|---|---|
| Hebei Aowei Industrial Group Co., Ltd. | A company ultimately owned by Mr. Li Yanjun |
| Laiyuan County Aoyu Steel Co., Ltd. *(note (i))* | A company ultimately owned by Mr. Li Yanjun via Hebei Aowei Industrial Group Co., Ltd. |

*Note:*

(i) Laiyuan County Aoyu Steel Co., Ltd. has been sold to an independent third party in March 2012 and ceased to be a related party of the Group since then.

Particulars of significant transactions between the Group and the above related parties during the years presented are as follows:

| | **2013 RMB'000** | 2012 RMB'000 |
|---|---|---|
| Sales of goods *(note (i))*# | **–** | 62,137 |
| Advances (repaid to)/obtained from related parties *(note (ii))*# | **(483,195)** | 258,318 |

*Notes:*

(i) Sales of goods represent sale to Laiyuan County Aoyu Steel Co., Ltd.. The sales were carried out at comparable market price.

(ii) Advances (repaid to)/obtained from related parties mainly represent payments repaid to and/or obtained from Hebei Aowei Industrial Group Co., Ltd., which are unsecured, interest free and have no fixed terms of repayment.

Other than providing credit terms of up to 90 days to Laiyuan County Aoyu Steel Co., Ltd., the directors of the Company are of the opinion that the above transactions between the Group and the related parties were conducted in the ordinary course of business, on normal commercial terms and in accordance with the agreements governing such transactions.

*(Expressed in Renminbi unless otherwise stated)*

## 31 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

### (a) Transactions with related parties *(continued)*

The outstanding balances arising from above transactions in the consolidated balance sheet were as follows:

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Amounts due from related parties | | |
| – Non-trade nature | – | 386 |
| Amounts due to related parties | | |
| – Hebei Aowei Industrial Group Co., Ltd. | – | (483,490) |
| – Other related parties | – | (91) |
| | – | (483,581) |

On 6 January 2014, the Company, as the lessee, entered into a property leasing framework agreement with Hebei Aowei Industrial Group Co., Ltd., as the lessor, for each of the years ending 31 December 2014, 2015 and 2016. As Mr. Li Yanjun is one of the directors and ultimate controlling parties of the Company (see note 32) and Hebei Aowei Industrial Group Co., Ltd. is ultimately owned by Mr. Li Yanjun, Hebei Aowei Industrial Group Co., Ltd. is a connected person of the Company under the Listing Rules. Accordingly, the property leasing framework agreement constituted continuing connected transactions of the Company. The Company has complied with the relevant Listing Rules requirements in respect of such continuing connected transactions and made corresponding announcement on 6 January 2014.

As at 31 December 2013, the estimated total future minimum lease payments to Hebei Aowei Industrial Group Co., Ltd. under non-cancellable operating leases were payable as follows:

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Within 1 year | 2,000 | – |
| After 1 year but within 5 years | 4,000 | – |
| | 6,000 | – |

*(Expressed in Renminbi unless otherwise stated)*

## 31 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

### (b) Key management personnel remuneration

Key management personnel are those persons holding positions with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the Group's directors.

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

| | **2013<br>RMB'000** | 2012<br>RMB'000 |
|---|---|---|
| Basic salaries, allowances and benefits in kind | **3,343** | 1,607 |
| Discretionary bonuses | **–** | – |
| Retirement scheme contributions | **268** | 35 |
| | **3,611** | 1,642 |

### (c) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of (a) above constitute connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section headed "Connected transactions and continuing connected transactions" of the Reports of the Directors.

## 32 ULTIMATE CONTROLLING PARTY

As at 31 December 2013, the directors considered the ultimate controlling parties of the Group to be Mr. Li Yanjun and Mr. Leung Hongying Li Ziwei.

*(Expressed in Renminbi unless otherwise stated)*

## 33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2013

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2013 and which have not been adopted in these financial statements. These included the following which may be relevant to the Group's operations and financial statements.

| | Effective for accounting periods beginning on or after |
|---|---|
| Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment entities* | 1 January 2014 |
| Amendments to IAS 32, *Financial instruments: Presentation – Offsetting financial assets and financial liabilities* | 1 January 2014 |
| Amendments to IAS 36, *Impairment of assets – Recoverable amount disclosures for non-financial assets* | 1 January 2014 |
| IFRIC 21, *Levies* | 1 January 2014 |
| IFRS 9, *Financial instruments (2009)* | 1 January 2015 |
| IFRS 9, *Financial instruments (2010)* | 1 January 2015 |
| Amendments to IFRS 9, *Financial instruments and IFRS 7 Financial instruments: Disclosures – Mandatory effective date and transition disclosures* | 1 January 2015 |

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

# Financial Summary

## SUMMARY DATA OF CONDENSED CONSOLIDATED INCOME STATEMENTS

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2013 RMB'000** | 2012 RMB'000 | 2011 RMB'000 | 2010 RMB'000 |
| Turnover | **1,286,078** | 581,573 | 773,127 | 364,576 |
| Cost of sales | **(575,255)** | (393,149) | (351,054) | (198,251) |
| **Gross profit** | **710,823** | 188,424 | 422,073 | 166,325 |
| Distribution costs | **(4,739)** | (1,920) | (7,354) | (7,533) |
| Administrative expenses | **(107,519)** | (101,538) | (103,604) | (38,348) |
| **Profit from operations** | **598,565** | 84,966 | 311,115 | 120,444 |
| Finance income | **280** | 115 | 333 | 78 |
| Finance costs | **(26,574)** | (7,621) | (4,176) | (3,169) |
| Net finance costs | **(26,294)** | (7,506) | (3,843) | (3,091) |
| **Profit before taxation** | **572,271** | 77,460 | 307,272 | 117,353 |
| Income tax | **(146,659)** | (22,666) | (85,282) | (30,418) |
| **Profit for the year** | **425,612** | 54,794 | 221,990 | 86,935 |
| **Attributable to:** | | | | |
| Equity Shareholders of the Company | **397,513** | 48,450 | 162,510 | 94,887 |
| Non-controlling interests | **28,099** | 6,344 | 59,480 | (7,952) |
| **Profit for the year** | **425,612** | 54,794 | 221,990 | 86,935 |
| Basic and diluted earnings per share (RMB) | **0.34** | 0.04 | 0.14 | 0.08 |

## SUMMARY DATA OF CONDENSED CONSOLIDATED BALANCE SHEETS

| | As at 31 December | | | |
|---|---|---|---|---|
| | **2013 RMB'000** | 2012 RMB'000 | 2011 RMB'000 | 2010 RMB'000 |
| **Assets and liabilities** | | | | |
| Total assets | **2,353,565** | 1,046,162 | 679,183 | 451,785 |
| Total liabilities | **(840,792)** | (881,832) | (489,647) | (291,106) |
| **Net assets** | **1,512,773** | 164,330 | 189,536 | 160,679 |
| **Equity attributable to equity shareholders of the Company** | **1,459,079** | 138,735 | 131,759 | 143,631 |

# Definitions

In this report, unless the context otherwise requires, the following expressions shall have the following meanings:

## DEFINITIONS OF FREQUENTLY-USED TERMS

| | |
|---|---|
| "Board" | the board of directors of the Company |
| "Hengshi HK" | Hengshi Development International Limited (恒實發展國際有限公司), a company incorporated in Hong Kong as a limited liability company on 2 February 2011, which is a wholly owned subsidiary of our Company |
| "Hengshi Holdings" | Hengshi Holdings Limited (恒實控股有限公司), a limited liability company incorporated in the BVI on 14 January 2011, which is wholly owned by Chak Limited |
| "Hengshi Investments" | Hengshi International Investments Limited (恒實國際投資有限公司), a limited liability company incorporated in the BVI on 14 January 2011, which is wholly owned by Hengshi Holdings |
| "Group", "we" or "us" | our Company and its subsidiaries (or our Company and any one or more of its subsidiaries, as the context may require); or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at relevant time |
| "Director(s)" | the director(s) of our Company |
| "The Hong Kong Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Latest Practicable Date" | 17 April 2014, being the latest practicable date for the purpose of ascertaining certain information contained in this annual report prior to its publication |
| "NDRC" | the National Development and Reform Commission of the People's Republic of China (中華人民共和國國家發展和改革委員會) |
| "SFO" | the Securities and Futures Ordinance |
| "Articles of Association" | the Articles of Association of Our Company |
| "Associate(s)" | has the meaning ascribed to it in the Listing Rules |
| "Audit Committee" | the audit committee of the Board |
| "Gufen Mine" | an iron ore mine located in Shuibao Village, Laiyuan County with an area of 1.3821 sq.km covered by the mining right of, and operated by, Xinxin Mining |

| | |
|---|---|
| "Hebei Provincial Department of Land and Resources" | the Hebei Provincial Department of Land and Resources (河北省國土資源廳) |
| "AME" | AME Mineral Economics (Asia) Limited, a global research and consulting firm specialising in the metal and mineral industries and the independent market consultant |
| "AME Report" | an independent industry report published by AME dated 29 September 2013, to be used in whole or in part in this prospectus |
| "Aowei Developments" | Aowei International Developments Limited (奧威國際發展有限公司), a company incorporated in the BVI as a limited liability company on 21 September 2012, which is wholly owned by Seven Limited |
| "Aowei Group" | Hebei Aowei Industrial Group Co., Ltd. (河北奧威實業集團有限公司), a company established in the PRC on 4 December 1996, which is owned by Mr. Li Yanjun and his wife, Ms. Yang Hongying, as to 89.2% and 10.8%, respectively |
| "Aowei Mining" | Laiyuan County Aowei Mining Investments Co., Ltd. (淶源縣奧威礦業投資有限公司, previously known as Rongcheng County Jiuhengjiye Technology Co., Ltd. (容城縣久恒基業科技有限公司) since its incorporation and until 12 April 2012, and Laiyuan County Jiuhengjiye Technology Co., Ltd. (淶源縣久恒基業科技有限公司) from 12 April 2012 to 12 June 2012), a company established in the PRC on 8 June 2011 and an indirectly wholly owned subsidiary of our Company, principally as a subsidiary holding company |
| "BVI" | the British Virgin Islands |
| "Cayman Companies Law" | the Companies Law of the Cayman Islands (2012 Revision), as amended, supplemented, or otherwise modified |
| "Company" or "our Company" | Hengshi Mining Investments Limited (恒實礦業投資有限公司), an exempted company originally incorporated in the BVI on 14 January 2011 and re-domiciled from the BVI to the Cayman Islands on 23 May 2013 |
| "Controlling Shareholders" | has the meaning ascribed in the Listing Rules and unless the context requires otherwise, refers to Mr. Leung Hongying Li Ziwei, Mr. Li Yanjun, the Family Trust, the Management Trust, Chak Limited, Seven Limited, Hengshi Holdings, Hengshi Investments and Aowei Developments |