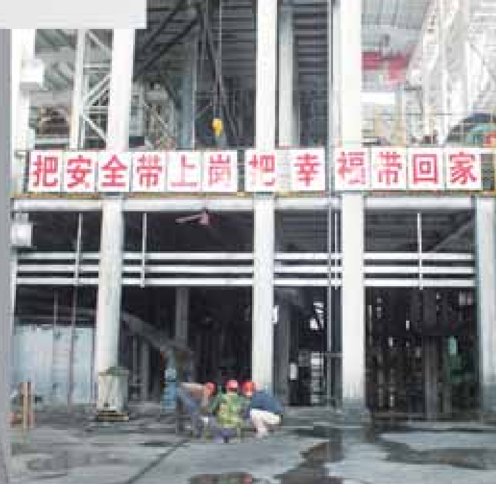
恒實礦業投資有限公司

HENGSHI MINING INVESTMENTS LIMITED

(Incorporated in the British Virgin Islands and continued in the Cayman Islands with limited liability)

Stock Code: 1370

ANNUAL REPORT 2016


把安全带上岗 把幸福带回家

CORE VALUE:

- CREATE Wealth for the Society
- CREATE Value for Our Shareholders
- CREATE Career for Our Employees

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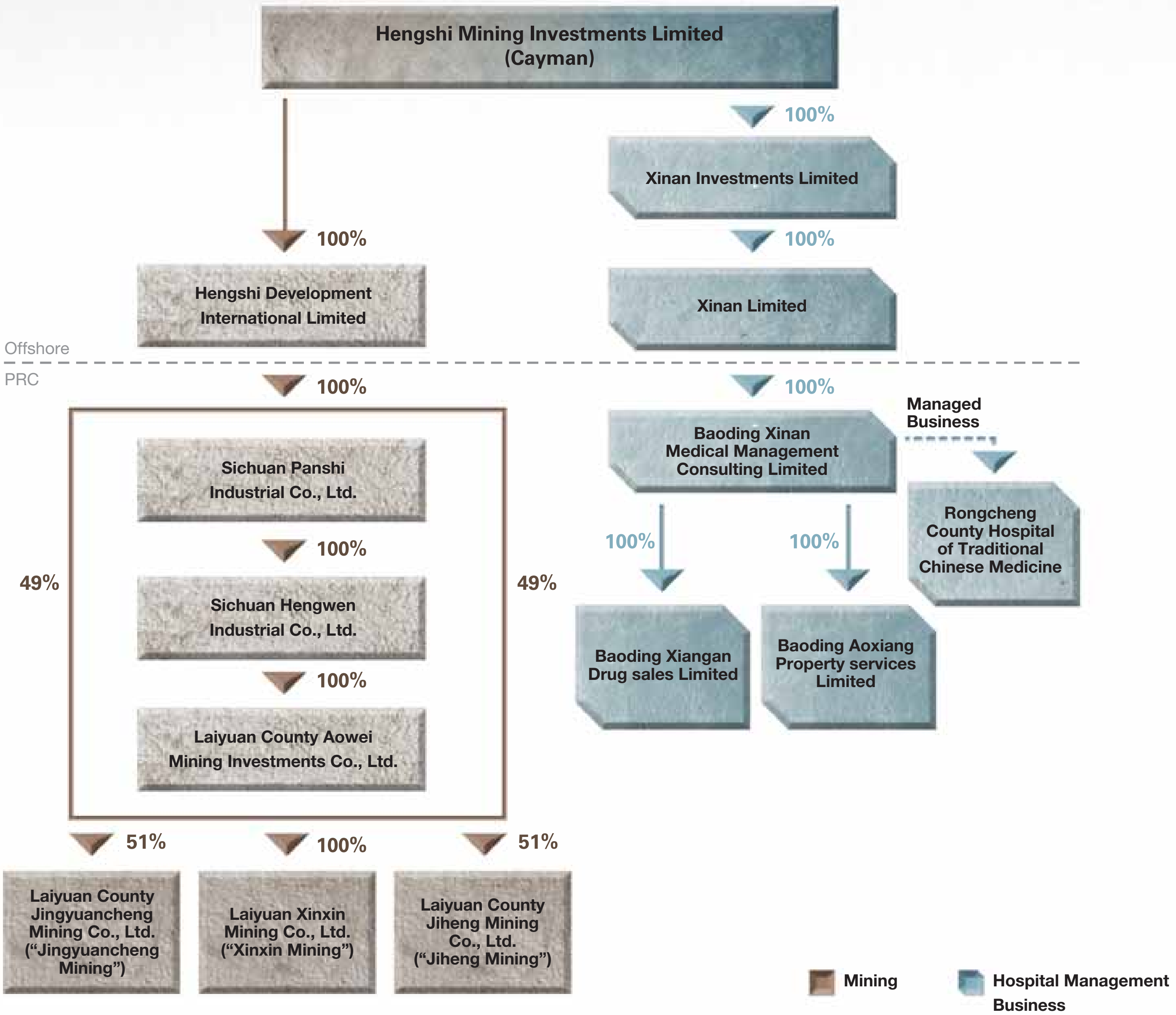
CORPORATE INFORMATION

Hengshi Mining Investments Limited (the "Company") was initially incorporated in the British Virgin Islands under the laws of the British Virgin Islands 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 "Stock Exchange") on 28 November 2013 (stock code: 1370).

The Company and its subsidiaries (collectively, the "Group" or "we" or "our") 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 the People's Republic of China (the "PRC" or "China").

The Company completed the acquisition of the entire issued share capital of Xinan Investments Limited (the "Acquisition") on 13 July 2016. Xinan Investments Limited and its subsidiary (collectively, the "Target Group") are principally engaged in hospital management business.

After the completion of the Acquisition, the Group principally engaged in two major business, namely mining, processing and trading iron ore products and provision of hospital management service.



CORPORATE INFORMATION

COMPANY'S STATUTORY CHINESE NAME
恒實礦業投資有限公司

COMPANY'S STATUTORY ENGLISH NAME
Hengshi Mining Investments Limited

STOCK CODE
1370

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AUTHORIZED REPRESENTATIVES
Mr. Li Yanjun
Ms. Kwong Yin Ping, Yvonne

JOINT COMPANY SECRETARIES
Mr. Meng Ziheng
Ms. Kwong Yin Ping, Yvonne

AUDITOR
KPMG
Certified Public Accountants
8th Floor, Prince's Building
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HONG KONG LEGAL ADVISOR
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HONG KONG SHARE REGISTRAR

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Services Limited
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INVESTOR INQUIRES

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DIRECTORS

Executive Directors

Mr. Li Yanjun *(Chairman)*
Mr. Leung Hongying Li Ziwei
(also known as Li Ziwei) *(Vice Chairman)*
Mr. Huang Kai *(appointed as CEO on 30 March 2016)*
Mr. Xia Guoan *(CEO) (resigned as executive director and CEO on 30 March 2016)*
Mr. Sun Jianhua *(CFO)*
Mr. Li Jinsheng
(appointed as executive director on 30 March 2016)
Mr. Tu Quanping

Independent Non-executive Directors

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

AUDIT COMMITTEE

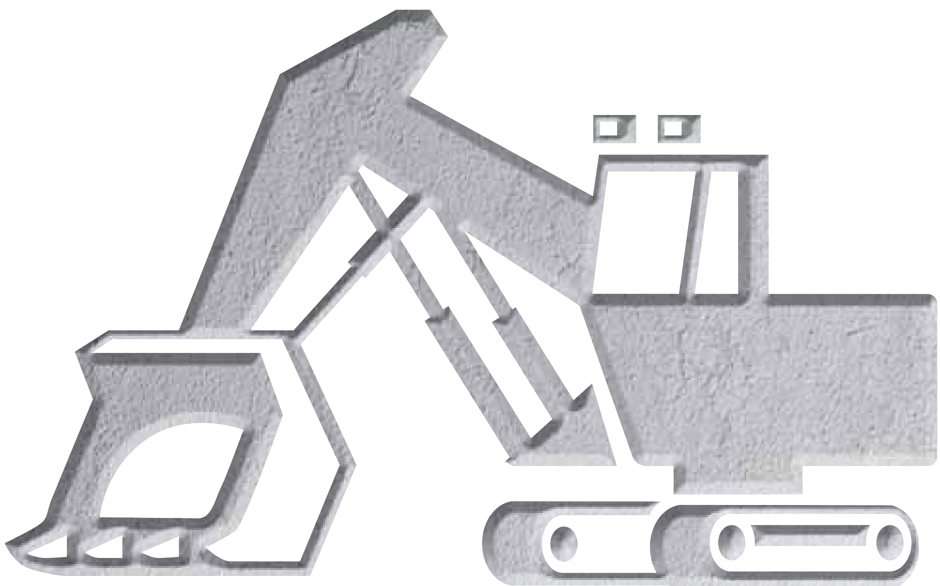
Mr. Ge Xinjian *(Chairman)*
Mr. Meng Likun
Mr. Kong Chi Mo

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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



FIVE-YEAR FINANCIAL SUMMARY

SUMMARY DATA OF CONDENSED CONSOLIDATED INCOME STATEMENTS

	For the year ended 31 December				
	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Revenue	**757,137**	753,663	1,108,143	1,286,078	581,573
Cost of sales	**(488,291)**	(487,343)	(553,055)	(575,255)	(393,149)
Gross Profit	**268,846**	266,320	555,088	710,823	188,424
Distribution costs	**(13,144)**	(19,989)	(16,575)	(4,739)	(1,920)
Administrative expenses	**(97,240)**	(115,183)	(142,313)	(107,519)	(101,538)
Impairment losses	**–**	(393,637)	–	–	–
Profit/(loss) from operations	**158,462**	(262,489)	396,200	598,565	84,966
Finance income	**4,065**	3,466	10,594	280	115
Finance costs	**(43,577)**	(27,248)	(40,026)	(26,574)	(7,621)
Net finance costs	**(39,512)**	(23,782)	(29,432)	(26,294)	(7,506)
Profit/(loss) before taxation	**118,950**	(286,271)	366,768	572,271	77,460
Income tax	**(33,284)**	51,190	(96,206)	(146,659)	(22,666)
Profit/(loss) for the year	**85,666**	(235,081)	270,562	425,612	54,794
Attributable to:					
Equity shareholders of the Company	**85,666**	(235,081)	263,000	397,513	48,450
Non-controlling interests	**–**	–	7,562	28,099	6,344
Basic and diluted earnings/(loss) per share (RMB)	**0.05**	(0.16)	0.17	0.34	0.04

SUMMARY DATA OF CONDENSED CONSOLIDATED BALANCE SHEETS

	As at 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets and liabilities					
Non-current assets	**1,977,855**	1,680,776	1,904,946	1,241,119	823,636
Current assets	**622,460**	384,067	457,050	1,112,446	222,526
Non-current liabilities	**(299,463)**	(278,971)	(331,240)	(531,138)	(134,263)
Current liabilities	**(569,625)**	(351,868)	(373,495)	(309,654)	(747,569)
Total equity	**1,731,287**	1,434,004	1,657,261	1,512,773	164,330
Non-controlling interests	**–**	–	–	53,694	25,595
Equity attributable to equity shareholders of the Company	**1,731,287**	1,434,004	1,657,261	1,459,079	138,735

CHAIRMAN'S STATEMENT

In 2016, as the supply side reform of the steel industry was continuously implemented, the operation conditions of the steel and iron ore industry continued to improve. The Group has maintained a stable profitability through effective cost control, active sales and remittance strategy. Meanwhile, the Group has also entered the broad healthcare market of China through acquisition, a solid step of business transformation into healthcare and the related areas.

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Hengshi Mining Investments Limited, I am pleased to present the report of the Group for the year ended 31 December 2016 (the "Year" or the "Reporting Period") and extend our gratitude to the shareholders of the Company (the "Shareholders").

ANNUAL REVIEW

The year of 2016 is a year full of changes with the global financial market fluctuating as international political conditions changed, market atmosphere turned cautious, uncertainties loomed larger, the global economy continued to adjust and the Chinese economic growth also slowed down. The gross domestic production of the PRC amounted to approximately RMB74.4 trillion, a year-on-year increase of 6.7%, which was the lowest growth in the last 10 years.

The structural reform on the supply side, however, brought new opportunities continuously for Chinese economic development. The compounded effect under the supply side reform to cut backward productivity, infrastructure construction of the downstream industries and turnaround of the real estate industry has led to an overall recovery in the steel industry, with an evident improvement of the industry's profitability. The national crude steel output was approximately 808.4 million tons, representing an increase of 1.2% compared with that of last year, while it was a decrease of 2.3% in 2015. The steel output was approximately 113.8 million tons, representing an increase of 2.3%, a growth rate 1.7 percentage points higher than last year. The continuous recovery of the steel industry, together with the elimination of domestic mine productivity and the slowing growth of the supply of international low-cost iron ores have also stimulated the iron ore price to rise continuously, which brought positive influence to the Group's operating performance.

Facing the complex and changing business environment, the Group has kept a close eye on the market conditions and made strategic adjustment decisively to deal with the changes of the market. The iron ore business has still recorded good performance during the year.

Although the steel industry has recovered in the short run, the global surplus of production still made it a long way from a continuous and steady development for the steel industry. Besides the measures to cut excess capacity, the steel enterprises also have to deal with the risk of environmental policy tightening, especially that for the steel producers of areas surrounding Beijing and Tianjin.

In adapting to the changes of the industry in this region, the Group is concerned with seeking new business point of growth. As China has entered an aging society, with urbanization steadily progresses, disposable income of residents continues to grow, medical technology ever develops and the level of social security keeps improving, the scale of Chinese healthcare market is very huge with expanding potential. On the basis of thorough industrial analysis and investigation and potential business opportunities, the Group has put much emphasis on the healthcare industry as well as the related business. To enhance the development of the healthcare business, the Group successfully acquired a medical target group in July 2016, which was the first step into the healthcare industry.

FUTURE OUTLOOK

Looking forward to 2017, the Group is of the view that the Chinese steel industry is still facing huge challenge. As one of the key areas in resolving overcapacity and implementing the supply side structural reform, it is expected that the Chinese government will continue to announce series of measures to ensure the enterprises' survival of the fittest, and resolve the overcapacity of the steel industry by measures of merge, acquisition and bankruptcy.

The Group will consider selling plants that are in suspension of production to cut maintenance cost and concentrate resources on future development. As for the normal production plants, the Group's strategy is to leverage on its potential manufacture capacity, further improve business process and technology upgrade to achieve cost-effective results.

As a number of medical reform policies will be implemented in 2017, the Chinese healthcare and pharmaceutical reforms will enter a stage of concrete actions, resulting in a faster consolidation which will present opportunities as well as challenges. Driven by factors such as the aging population, rise in health awareness, epidemiological transitions and application of new technologies, the demand for relevant products and services is expected to sustain over the long-term underpinning the development of the pharmaceutical industry. As an important sector in China relating to people's livelihood, the pharmaceutical and healthcare industry will remain one of the industries with the growth potential.

The Group will make full use of the above favorable factors, seek appropriate business opportunities actively, enhance the development of the Group's healthcare and related business by measures including acquisitions and improve the overall and long-term interests of the Company and the Shareholders.

APPRECIATION

Last but not least, on behalf of the Board, I hereby wish to express my heartfelt gratitude to all Shareholders, customers and strategic partners once again for their unfailing trust and support amidst extremely challenging business conditions during the past year, as well as to the management team and all employees for their hard work and dedication to the Group.

Li Yanjun
Chairman of the Board




MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

MINING SERVICE

MARKET REVIEW

In 2016, facing the complex economic environment at home and abroad, the domestic economy has experienced a slow yet steady growth, which has achieved a positive start of the "Thirteenth Five-year Plan". In February 2016, the State Council announced the Opinions on the Steel Industry to Resolve Overcapacity and Relief (《關於鋼鐵行業化解過剩產能實現脱困發展的意見》), which focused on the structural reform of the supply side of the steel industry, relieving the problems of surplus of productivity positively and properly. According to the 2017 Work Report of the State Council, China's steel industry has reduced a productivity of approximately 65.0 million tons in total during the year of 2016, which has exceeded the annual target.

The compounded effect under the supply side reform to cut backward productivity, infrastructure construction of the downstream industries and turnaround of the real estate industry has led to an overall recovery in the steel industry, with an evident improvement of the industry's profitability. The national crude steel output was approximately 808.4 million tons, representing an increase of approximately 1.2% compared with that of last year, while it was a decrease of approximately 2.3% in 2015. The steel output was approximately 113.8 million tons, representing an increase of approximately 2.3%, a growth rate of approximately 1.7 percentage points higher than last year.

The continuous recovery of the steel industry, together with the elimination of domestic mine productivity and the slowing growth of the supply of international low-cost iron ores have also stimulated the iron ore price to rise continuously, which brought positive influence to the Group's operating performance.

BUSINESS REVIEW

During the Reporting Period, as the Chinese government continued to implement the supply side structural reform and the policy of resolving overcapacity of the steel industry, the domestic steel and iron ore price has experienced a continuous rise, with Platts Index rose from approximately US$42/ton at the beginning of the Year to approximately US$80/ton at the end of the Year. The Group has fully grasped the market opportunity to cut costs by measures of technology upgrade to enhance production efficiency, cutting administrative staff and improving meticulous management, and to improve working cash flow conditions by positive sales strategy to tackle with changes in market conditions.

During the Reporting Period, the production and sale volume of iron ore concentrates of the Group reached a record high, while the average unit cash operating cost have reached a record low. The output of iron ore concentrates was approximately 1,798.0 thousand tons (corresponding period in 2015: approximately 1,608.0 thousand tons), representing a year-on-year growth of approximately 11.8%. The sales of iron ore concentrates was approximately 1,855.6 thousand tons (corresponding period in 2015: approximately 1,642.2 thousand tons), representing a year-on-year growth of approximately 13.0%. The average per unit cash operating cost was approximately RMB233.0/ton, with the average per unit cash operating cost of approximately RMB172.3/ton for Jiheng Mining and approximately RMB327.6/ton for Jingyuancheng Mining.

The table below sets out the breakdown of output and sales volume for each operating subsidiary of the Group:

The Group	As at 31 December Output (Kt) 2016	2015	% of change	As at 31 December Sales volume (Kt) 2016	2015	% of change	As at 31 December Average sales price (RMB) 2016	2015	% of change
Jiheng Mining									
Iron ores	**3,744.1**	3,804.8	–1.6%	**16.6**	124.0	–86.6%	**63.0**	94.0	–33.0%
Preliminary concentrates	**2,577.6**	2,106.6	22.4%	**193.0**	460.6	–58.1%	**111.9**	100.9	10.9%
Iron ore concentrates(1)	**1,091.7**	943.0	15.8%	**1,122.5**	982.4	14.3%	**373.6**	406.1	–8.0%
Jingyuancheng Mining									
Iron ore concentrates(2)	**706.3**	522.8	35.1%	**724.9**	488.1	48.5%	**431.2**	459.2	–6.1%
Xinxin Mining									
Iron ore concentrates(2)	**–**	142.2	–100.0%	**8.2**	171.7	–95.2%	**320.0**	420.6	–23.9%
Total									
Iron ore concentrates	**1,798.0**	1,608.0	11.8%	**1,855.6**	1,642.2	13.0%	**395.8**	423.4	–6.5%

Notes:

(1) The TFe grade of iron ore concentrates sold by Jiheng Mining was 63%.

(2) The TFe grade of iron ore concentrates sold by Jingyuancheng Mining and Xinxin Mining was 66%.

RESOURCES AND RESERVES

During the Reporting Period, the Group has conducted drilling of three holes in total of approximately 1,000 meters to assist daily production, with exploration expenses increased by approximately RMB0.5 million in total.

Based on the most recent estimation results on the reserves less the consumption for the current period, the iron ore reserves which complied with JORC Code (2004 Edition) in respect of each mine of the Group as at 31 December 2016 are shown in the following table:

Company	Mine	Exploration approach	Reserve category	Depleted reserve[1]			Ore reserves[2]		
				(Kt)	TFe (%)	mFe (%)	(Kt)	TFe (%)	mFe (%)
Jiheng Mining	Zhijiazhuang	Open-pit	Probable	3,744	24.36	23.02	8,845	26.45	25.18
Jingyuancheng Mining	Wang'ergou	Open-pit	Probable	10,399	11.43	4.10	21,431	12.85	5.69
		Underground	Probable (graded 12% or above)	–	–	–	18,077	15.87	8.50
	Shuanmazhuang	Open-pit	Probable	797	11.66	4.23	87,869	13.53	5.53
		Underground	Probable (graded 12% or above)	–	–	–	35,723	16.00	7.11
Xinxin Mining	Gufen	Open-pit	Probable	0	0.00	0.00	50,672	12.76	6.25
		Underground	Probable (graded 12% or above)	–	–	–	58,750	15.35	8.50
Total		Open-pit	Probable	14,940	14.68	8.85	168,817	14.62	7.92
		Underground	Probable (graded 12% or above)	–	–	–	112,550	15.64	8.06
		Total	Probable	14,940	14.68	8.85	281,367	14.96	7.96

Notes:

(1) Consumption of reserves represents the production statistical results of the mines for the current period, which are reviewed by the internal experts of the respective mining companies and internal experts of the Group.

(2) The outcome of the ore reserves in this report was based on the estimated results of the ore reserves stated in the Competent Person's Report by SRK in November 2013 less the consumption from 1 July 2013 to 31 December 2016, the estimated assumptions in the report published in 2013 has not been changed.

Based on the most recent estimation results on resources less the consumption for the current period, as at 31 December 2016, the iron ore resources which complied with JORC Code (2004 Edition) in respect of each mine of the Group are as follows:

Company	Mine	Resource class	Depleted resource for the period[1]			Resource at the end of the period[2]		
			(Kt)	TFe (%)	mFe (%)	(Kt)	TFe (%)	mFe (%)
Jiheng Mining	Zhijiazhuang	Indicated resource	3,706	26.95	25.50	12,226	24.22	23.15
		Inferred resource	–	–	–	9,426	27.58	25.82
Jingyuancheng Mining	Wang'ergou	Indicated resource	10,292	13.96	5.96	52,962	13.69	6.54
		Inferred resource	–	–	–	39,250	13.03	5.85
	Shuanmazhuang	Indicated resource	789	14.45	6.13	150,021	13.96	5.72
		Inferred resource	–	–	–	73,935	12.81	4.92
Xinxin Mining	Gufen	Indicated resource	0	13.39	6.69	153,413	13.21	6.50
		Inferred resource	–	–	–	101,100	12.44	6.03
Total		Indicated resource	14,787	17.24	10.86	368,622	14.30	6.96
		Inferred resource	–	–	–	223,711	13.30	6.46
		Total resources	14,787	17.24	10.86	592,333	13.92	6.77

Notes:

(1) Consumption of resources is based on the production statistical results of the mines for the current period, which are reviewed by the internal experts of the respective mining companies and the internal experts of the Company.

(2) The iron ore resources and reserves of this Report are the result of the estimation stated in the Competent Person's Report by SRK in November 2013 less the consumption from 1 July 2013 to 31 December 2016, and there are no changes on the estimation and assumption of the report presented in 2013.

MINES IN OPERATION

Zhijiazhuang Mine

Zhijiazhuang Mine, which is wholly owned and operated by Jiheng Mining, is located in Yangjiazhuang Village, Laiyuan County. It has an area of 0.3337 sq.km covered by its mining permit and has comprehensive basic infrastructures such as water, electricity, highway and railway, etc. The annual mining capacity of Zhijiazhuang Mine was 2.4 Mtpa, and the dry processing capacity and the wet processing capacity were 4.20 Mtpa and 1.80 Mtpa, respectively, as at 31 December 2016.

The following table sets forth a breakdown of cash operating costs of Zhijiazhuang Mine:

Iron ore concentrates

	As at the end of 31 December		
Unit: RMB per tonne of iron ore concentrates	**2016**	2015	% change
Mining costs	**64.9**	59.8	8.5%
Dry-processing costs	**14.6**	21.1	–30.8%
Wet-processing costs	**46.2**	54.3	–14.9%
Administrative expenses	**26.0**	12.4	109.7%
Distribution costs	**6.1**	8.6	–29.1%
Taxation	**14.5**	16.7	–13.2%
Total	**172.3**	172.9	–0.3%

During the Reporting Period, the unit cash operating cost of the iron ore concentrates of Zhijiazhuang Mine remained flat compared with that of last year. The rising of the mining cost was primarily due to increased stripping ratio, and the decrease of dry processing and water processing costs were primarily due to the higher iron ore grade and operating efficiency. The significant increase of administrative expense compared with that of last year was primarily due to the administrative costs paid to local government, and the decrease of taxation was primarily due to the cut of resource tax rate by the local taxation authorities.

During the Reporting Period, Zhijiazhuang Mine recognized mining cost in profit and loss accounts of approximately RMB109.8 million in total. The capital expenditure of Zhijiazhuang Mine during the Reporting Period was approximately RMB17.1 million, which mainly involved the final payment of approximately RMB8.5 million to purchase the assets of tailings reservoir and transformer substation, the expenditure of approximately RMB5.3 million on the construction of a new tailings reservoir, the payment of approximately RMB2.4 million on mining rights and interest and approximately RMB0.8 million on other sporadic constructions.

Wang'ergou Mine and Shuanmazhuang Mine

Wang'ergou Mine and Shuanmazhuang Mine, which are both wholly-owned and operated by our wholly-owned subsidiary, Jingyuancheng Mining, are located in Zoumayi Village, Laiyuan County. The areas covered by the mining licenses for Wang'ergou Mine and Shuanmazhuang Mine are 1.5287 sq.km and 2.1871 sq.km, respectively. Wang'ergou and Shuanmazhuang have comprehensive basic infrastructures such as water, electricity and highway. As at 31 December 2016, the aggregate annual mining capacity of Wang'ergou Mine and Shuanmazhuang Mine was 14.0 Mtpa, and the dry processing capacity and wet processing capacity were 17.6 Mtpa and 3.5 Mtpa, respectively.

The following table sets forth a breakdown of the cash operating costs of Wang'ergou Mine and Shuanmazhuang Mine:

Iron ore concentrates

	As at the end of 31 December		
Unit: RMB per tonne of iron ore concentrates	**2016**	2015	% change
Mining costs	**140.5**	107.1	31.2%
Dry-processing costs	**76.6**	71.1	7.7%
Wet-processing costs	**51.8**	108.3	–52.2%
Administrative expenses	**32.4**	38.1	–15.0%
Distribution costs	**8.6**	20.2	–57.4%
Taxation	**17.7**	19.4	–8.8%
Total	**327.6**	364.2	–10.0%

During the Reporting Period, the unit cash operating cost of the iron ore concentrate of Wang'ergou and Shuanmazhuang Mine decreased slightly, with the rising cost brought by increased stripping ratio offset by the deceased cost brought by the high-pressure drill mill in dry processing. Effective cost control and the decreased percentage of the iron ore concentrates that the Company took charge of transportation resulted in a further decrease of cash costs.

During the Reporting Period, Wang'ergou Mine and Shuanmazhuang Mine recognized mining cost in profit and loss accounts of approximately RMB117.4 million in total. The capital expenditure of Wang'ergou Mine and Shuanmazhuang Mine were approximately RMB144.2 million, which mainly involved payment of approximately RMB135.7 million on new construction of dry processing plant and dry processing technology upgrade, the expenditure of approximately RMB3.2 million on the construction of Dabugou tailings reservoir, the payment of approximately RMB2.1 million on mining rights and interest, the payment of approximately RMB2.0 million on deposit of environment and geomorphic restoration, and approximately RMB1.3 million on purchase of vehicles, other office supplies and sporadic constructions.

Gufen Mine

Gufen Mine, which is owned and operated by our wholly-owned subsidiary, Xinxin Mining, is located in Shuibao Village, Laiyuan County and the area covered by the mining right for Gufen Mine is 1.3821 sq.km. Gufen Mine has comprehensive basic infrastructures such as water, electricity and highway. As at 31 December 2016, Gufen Mine's annual mining capacity was 3.90 Mtpa, and the dry processing capacity and the wet processing capacity were 5.75 Mtpa and 1.60 Mtpa, respectively.

At the end of 2015, since the domestic and global price of iron ore remained low, the management of the Group decided to temporarily suspend the production of Xinxin Mining after considering the market outlook, the production and operation of Xinxin Mining, especially the relationship between the mining, processing costs and the expected selling price and its percentage in the whole business.

During the Reporting Period, although the iron ore price experienced a significant increase, based on the reasons above and a comprehensive consideration of the benefits and risks of the resumption of production the relatively small-scale Xinxin Mining, the management of the Group decided to continue the suspension of production of Xinxin Mining's mining and processing activities. The management of the Group will make prudent business arrangement in accordance with the market change and business development.

STRIPPING ACTIVITIES

The Group has finished the building infrastructure and stripping projects of all the iron ore mines in 2015. As a result, the Group had no additional expenditure on building infrastructure and stripping projects during the Reporting Period. Furthermore, since the average stripping ratio of the operating entities in China was lower than their respective remaining mines during the Reporting Period, no qualified capitalized production and stripping costs were recorded.

MEDICAL SERVICE

BUSINESS REVIEW

On 4 July 2016 (after trading hours), the Company (as purchaser) entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with Jovial Link Investments Limited (連欣投資有限公司) ("Jovial Link") (as vendor) and Mr. Li Chung Tai (李忠泰), Ms. Lee Sam Mui (李三妹) and Mr. Li Shunfa (李順發) (collectively, the "Guarantors") (as guarantors) to acquire the entire issued share capital of Xinan Investments Limited (熹南投資有限公司) (the "Target Company") and its subsidiaries (the "Target Group") at the consideration of RMB213.0 million. On 13 July 2016 (the "Completion Date"), the consideration was settled by issuing 127,486,892 shares (the "Consideration Shares") of the Company. Upon completion of the Acquisition, the Company indirectly holds the entire equity of Baoding Xinan Medical Management Consulting Limited* (保定熹南醫療管理諮詢有限公司) ("Baoding Xinan"), which is principally engaged in the provision of hospital custody services in China.

Pursuant to the Sale and Purchase Agreement, Jovial Link and the Guarantors jointly and severally made irrevocable commitment and guarantee to the Company that the audited consolidated profit after tax of the Target Group for the financial years ended/ending 31 December 2016 and 31 December 2017 (the "Guaranteed Period") shall not be less than RMB2.5 million and RMB7.75 million (the "Guaranteed Amount "), respectively. If the actual amount of the audited consolidated profit after tax of the Target Group (the "Actual Profit") was less than the Guaranteed Amount of that financial year during the Guaranteed Period, Jovial Link and the Guarantors shall pay the Guaranteed Amount difference of that financial year to the Company in cash.

For the financial year ended 31 December 2016, the audited consolidated profit after tax of the Target Group recorded a loss of approximately RMB0.9 million. Accordingly, Jovial Link and the Guarantors made up for the Guaranteed Amount difference through cash payment to the Company on 14 March 2017.

During the second half of 2016, the Group was committed to establishing a medical management team, and at the same time, it continued to employ teams of experts for Rongcheng County Hospital of Traditional Chinese Medicine (容城縣中醫醫院) (the "Entrusted Hospital") entrusted by Baoding Xinan, in order to strengthen the management and operation capabilities of the medical institution, enhance the overall medical technology level of the Entrusted Hospital and provide better and quality services to the patients, so as to create long-term stable return for the Shareholders.

Meanwhile, the Group lent RMB11.0 million at nil consideration to the Entrusted Hospital for the purpose of medical equipment procurement and business improvement, and strove to conduct the preparation work for the renovation and expansion project of the Entrusted Hospital. In 2016, the Entrusted Hospital achieved an increase in the number of patient consultation visits from approximately 71,800 to 72,300 annually, while incomes from clinic and hospital fees increased from approximately RMB25.0 million to approximately RMB25.8 million.

The Group tapped into the medical service market in 2016, which laid a solid foundation for the Group's further development in the medical industry business.

SAFETY AND ENVIRONMENTAL PROTECTION

The Group established a production safety management department specifically responsible for production safety and management. This department had been consistently promoting safety standards and strengthening environmental protection policies so as to develop the Group into a socially responsible enterprise with high safety awareness. During the Reporting Period, the Group recorded no significant safety accident.

Owing to the deteriorating air quality in China, especially in Beijing and Hebei Province, it is anticipated that the PRC government will inevitably tighten the relevant environmental policies over resource mining, steelmaking, cement production and other high-pollution industries. To mitigate the potential impact of the policies to our business, the Group will closely monitor the latest regulatory requirements and introduce appropriate environmental measures to our operation and production from time to time.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2016, the Group had 915 employees in total (1,026 employees in total as at 31 December 2015). The total remuneration expenses and the amounts of other employees' benefit were approximately RMB70.3 million (the corresponding period in 2015: approximately RMB85.1 million). Employee costs include basic remuneration, incentive salary, social pension insurance, medical insurance, work-related injury insurance and other insurances required by the government. According to the Group's remuneration policy, the employees' income is linked to the performance of individual employee and the operation performance of the Group. The Group carried out performance assessment to stimulate employee initiatives, so as to enhance the operation efficiency of the Group.

FINANCIAL REVIEW

Revenue

The revenue of our Group for the Reporting Period was approximately RMB757.1 million, representing a slight increase of approximately RMB3.5 million as compared to the corresponding period last year. During the Reporting Period, the sales volume of iron ore concentrates increased of approximately 13.0% as compared to the corresponding period last year, but the increase of sales volume was offset by the decrease of the yearly average selling price of iron ore concentrates.

Cost of sales

The Group's cost of sales for the Reporting Period was approximately RMB488.3 million, representing a slight increase of approximately RMB0.9 million as compared to the corresponding period last year, which was attributable to the fact that the increase of the sales volume of iron ore concentrates was offset by the decrease of the unit cash cost which caused the decrease of unit cost of sales.

Gross profit and gross profit margin

The gross profit of the Group for the Reporting Period was approximately RMB268.8 million, representing an increase of approximately RMB2.5 million or 0.9% as compared to the corresponding period last year. The Group's gross profit margin remained stable during the Reporting Period and increased from 35.3% to 35.5% as compared to the corresponding period last year.

Sales and distribution expenses

The Group's sales and distribution expenses for the Reporting Period were approximately RMB13.1 million, representing a decrease of approximately RMB6.8 million or 34.2% as compared to the corresponding period last year, which was mainly due to the decrease of the total sales volume of the products which the Group were responsible for the delivery to the customers and the related transportation cost. Sales and distribution expenses included transportation expenses, labour cost and other expenses.

Administrative expenses

The Group's administrative expenses for the Reporting Period were approximately RMB97.2 million, representing a decrease of approximately RMB17.9 million or 15.6% as compared to the corresponding period last year, which was mainly due to the fact that the Group did not have a net loss on the disposal of property, plant and equipment in 2016. 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, the bank charges, provision for impairment of inventories, the provision for bad debts and other expenses.

Impairment losses

The Group has not recorded impairment losses for the Reporting Period. In the second half of 2015, since the weak price for iron ore products was expected and the consequent delay of mine development plan, the Group identified indications of impairment loss in relation to Jingyuancheng Mining and Xinxin Mining. Hence, a formal estimate of the recoverable amount of the relevant cash generating unit was conducted and the impairment losses of approximately RMB393.6 million was recognized for the corresponding period in 2015.

The Group has been monitoring the market conditions closely and believes that there is no indication of significant differences from the key assumptions used in the estimation conducted on 31 December 2015. Hence, the Group considers that the provision for impairment as at 31 December 2016 is sufficient and it is unnecessary to make provision for additional impairment or reversals of impairment provisions of the Group's long-term assets.

Finance costs

The Group's finance cost for the Reporting Period was approximately RMB43.6 million, representing an increase of approximately RMB16.3 million or 59.9% as compared to the corresponding period last year, which was mainly due to increased interests charges as a result of increase in bank borrowings. Finance cost included interest expenses of bank borrowings, discounted expenses, other finance expenses and the amortization of discounted expenses of long-term payables.

Income tax (expenses)/credits

The Group's income tax expenses for the Reporting Period were approximately RMB33.3 million, while the income tax credits for the corresponding period last year were approximately RMB51.2 million. Income tax expenses comprise the aggregate of current tax and deferred tax, among which current tax was approximately RMB48.9 million.

Profit/(loss) for the year and total comprehensive income for the year

Based on the above reasons, the Group's profit for the Reporting Period amounted to approximately RMB85.7 million, while the loss for the corresponding period last year was approximately RMB235.1 million. The Group's total comprehensive income for the Reporting Period was approximately RMB87.1 million, while the total comprehensive loss for the corresponding period last year was approximately RMB235.0 million.

Property, plant and equipment

The property, plant and equipment, net of the Group for the year ended 31 December 2016 were approximately RMB838.6 million, representing an increase of approximately RMB114.1 million or 15.8% as compared to that for the same period last year. The change was mainly attributable to the completed project for construction in progress was transferred to property, plant and equipment, including the project of fine crushing oppressive polishing technology in Jingyuancheng Mining, the engineering of new plant with annual processing capability 8,000 kilotonnes and the engineering of Dabugou Tailings Dam and Daxigou Tailongs Dam.

Intangible assets and goodwill

Intangible assets of the Group mainly include mining rights and related premium paid to obtain the mining rights, and the hospital management right newly acquired. Goodwill of the Group arose from acquisition of the Target Group. As at 31 December 2016, the net intangible assets of the Group were approximately RMB753.8 million (the net intangible assets as at 31 December 2015 were approximately RMB602.7 million). Goodwill was approximately RMB73.4million (the goodwill as at 31 December 2015 was nil).

Inventories

As at 31 December 2016, inventories of the Group amounted to approximately RMB106.1 million, representing a decrease of approximately RMB8.9 million or 7.7% as compared to that of 2015. The decrease in inventories was mainly attributable to the adjustment in the Group's sales strategy as a result of the recovery in the price of iron ore concentrates in late 2016.

Trade and other receivables

As at 31 December 2016, trade receivables of the Group amounted to approximately RMB68.4 million, representing a decrease of approximately RMB23.9 million as compared to that of 2015. The decrease in trade receivables was mainly attributable to the fact that Group adopted the positive sale and recovery strategies in view of current market conditions. As of 31 December 2016, other receivables of the Group amounted to approximately RMB55.3 million, representing a decrease of approximately RMB61.9 million as compared to that of 2015. The decrease in other receivables was mainly attributable to the decrease in prepayment to third party contractors.

Trade and other payables

As of 31 December 2016, trade payables of the Group amounted to approximately RMB106.7 million, representing an increase of approximately RMB66.7 million as compared to that of the corresponding period of last year. The increase in trade payables was mainly attributable to the increase in trade payables to major suppliers.

As of 31 December 2016, other payables of the Group amounted to approximately RMB73.7 million, representing a decrease of approximately RMB17.1 million as compared to that of corresponding period of last year. The decrease in other payables was mainly attributable to the decrease in payables for equipment procurement for constructions in progress and decrease in other payables.

The analysis of cash usage

The summary of our Group consolidated cash flow statement for 2016 is set out as follows.

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Net cash generated from operating activities	**369,186**	123,665
Net cash used in investing activities	**(466,519)**	(216,121)
Net cash generated from/(used in) financing activities	**83,085**	(15,586)
Net decrease in cash and cash equivalents	**(14,248)**	(108,042)
Cash and cash equivalents at beginning of the year	**59,495**	167,431
Effect of foreign exchange rate changes to cash and cash equivalents	**1,330**	106
Cash and cash equivalents at the end of the year	**46,577**	59,495

Net cash flow generated from operating activities

The Group's net cash flow generated from operating activities for the Reporting Period amounted to approximately RMB369.2 million, which mainly included the profit before tax of approximately RMB119.0 million, certain non-cash expenses in aggregate of approximately RMB118.3 million (e.g. impairment losses, depreciation and amortization and net loss from disposal of assets), decrease of approximately RMB82.4 million of trade and other receivables because of active operating, sale and rebate strategies, increase of approximately RMB31.2 million of trade and other payables, decrease of approximately RMB8.9 million of inventories, and net interest expense of approximately RMB39.2 million and income tax paid of approximately RMB29.8 million.

Net cash flow used in investing activities

The Group's net cash flow used in investing activities for the Reporting Period was approximately RMB466.5 million, which primarily represented payment of approximately RMB160.6 million for purchase of property, plant and equipment and construction in progress due to expansion of productivity improvement and technology transformation, and purchase of short-term wealth management products of bank and the fixed deposits for six months in aggregate of approximately RMB305.0 million.

Net cash flow generated from/(used in) financing activities

The Group's net cash inflow from financing activities for the Reporting Period was approximately RMB83.1 million, which mainly represented new loans raised of RMB110.0 million and payment of bank interests of approximately RMB26.9 million.

Cash and borrowings

As at 31 December 2016, cash balance of the Group amounted to approximately RMB46.6 million, representing a decrease of approximately RMB12.9 million or approximately 21.7% as compared with the corresponding period of last year.

As at 31 December 2016, bank loans of the Group was approximately RMB310.0 million, representing an increase of approximately RMB110.0 million or 55.0% as compared with the end of last year. The interest rates of the borrowings as at 31 December 2016 ranged from 4.35%-6.53% (corresponding period of last year was 5.36%-5.93%) per annum. All of the borrowings were accounted for as current liabilities of the Group (as at 31 December 2015: 50%). The above borrowings were denominated in RMB.

Save as disclosed above, the Group has no 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. The Directors have confirmed that there was no material change in the liabilities and contingent liabilities of the Group since 31 December 2016 and up to the date of this report.

As at 31 December 2016, the overall financial status of the Group was in a good condition.

Restricted deposits

As at 31 December 2016, the Group's restricted deposits mainly represented the bank deposits for six months, deposits pledged as guarantees of bills payable and other deposits amounted to approximately RMB257.0 million, RMB40.0 million and RMB1.0 million, respectively (as at 31 December 2015: RMB nil).

Gearing ratio

The gearing ratio of the Group increased from approximately 30.6% as at 31 December 2015 to approximately 33.4% as at 31 December 2016. The gearing ratio is calculated by dividing the total debts by total assets.

Interest rate risk and foreign currency risk

The fair value interest rate risk of the Group is primarily related to the bank borrowings. Most of the bank borrowings of the Group expire within one year, therefore their fair value interest rate risk is low. The Company currently does not have an interest rate hedging policy. However, the management of the Group monitors interest rate risk and will consider to hedge significant interest rate risk when necessary.

The principal business of the Group is located in the PRC and the principal operation and transactions are carried out in RMB. Substantially all of the assets and liabilities of the Group are denominated in RMB. Since RMB is not freely convertible, the PRC government may take actions to affect the exchange rate exposure, which may affect the Group's net assets, earnings and any dividend declared if such dividends are translated into foreign currency. The Group had no hedging in respect of the exchange rate risk.

Significant acquisitions and disposals of subsidiaries and affiliated companies

On 4 July 2016, the Company entered into the Sale and Purchase Agreement with Jovial Link, and Mr. Li Chung Tai, Mr. Li Shunfa and Ms. Lee Sam Mui in respect of the acquisition of the entire issued share capital of the Target Group by the Company at a consideration of RMB213.0 million. The consideration for the Acquisition was settled by the issuance of 127,486,892 Consideration Shares under the general mandate representing approximately 7.80% of the issued share capital of the Company as enlarged by issue of the Consideration Shares.

The Target Company is an investment holding company incorporated in the British Virgin Islands on 3 January 2013 with limited liability and is wholly-owned by Jovial Link. Save and except for the 100% equity interest in Xinan Limited, the Target Company had no other material assets and liabilities as at the date of the Sale and Purchase Agreement; Xinan Limited is an investment holding company incorporated in Hong Kong on 9 October 2014 with limited liability and is wholly-owned by the Target Company. Save and except for the 100% equity interest in Baoding Xinan, Xinan Limited had no other material assets and liabilities as at the date of the Sale and Purchase Agreement; Baoding Xinan is a company incorporated in Hebei Province, China on 20 June 2016 with limited liability and is principally engaged in medical management consulting (excluding medical diagnosis) and corporate management consulting (excluding intermediary services) business.

For further details, please refer to the announcements of the Company dated 4 July 2016 and 13 July 2016, respectively.

Save as disclosed above, the Group had no other significant acquisitions and disposals of subsidiaries and affiliated companies as at 31 December 2016.

Pledge of assets and contingent liabilities

As at 31 December 2016, the Group's bank loans of RMB200.0 million and RMB110.0 million were secured by the Group's mining rights, land use rights and properties and by the land use rights and properties of a related party of the Group, respectively. As at 31 December 2015, the Group's bank loans were secured by the Group's mining rights.

The carrying amounts of the Group's mining rights, land use rights and properties pledged for bank loans were approximately RMB57.1 million, approximately RMB11.3 million, and approximately RMB49.9 million respectively as at 31 December 2016.

The Group had no material contingent liabilities as at 31 December 2016.

Significant Investments Held

Save as disclosed in this report, there were no significant investments held by the Company as at 31 December 2016.

FUTURE OUTLOOK

Iron Ore Industry

Looking forward to 2017, the Group is of the view that the Chinese steel industry is still facing huge challenge. As one of the key areas in resolving overcapacity and implementing the supply side structural reform, it is expected that the Chinese government in 2017 will continue to announce series of measures to ensure the enterprises' survival of the fittest, and resolve the overcapacity of the steel industry by measures of merge, acquisition and bankruptcy.

However, as the measures to resolve the over-capacity of the steel industry move on, the infrastructure construction remains stable and the real estate market continues to prosper, the steel price is expected to stabilize in 2017, with the profit of steel enterprises continuing to recover, which led the price of iron ore to remain stable.

Meanwhile, the domestic input of iron ore will probably continue to increase, mainly attributable to the Australian and Brazilian large mine enterprises' continuous expansion of productivity and decrease of cost, the effect of which was doubled by the elimination of domestic high-cost mine enterprises.

The Group also need to fully leverage on its advantage of low unit cash cost to find development opportunities positively. The Plan for Coordinated Development of Beijing, Tianjin and Hebei will also bring more infrastructure investment opportunities in the future, and resources industries including the steel industry will benefit from this plan.

Medical Industry

As the accelerating ageing population in the society in China continues to drive a greater growth of demand for the medical industry, and medical spending per capita in China is still at a relatively low level, there is a great potential of growth in the medical service market. However, the regional imbalance development brings about an increasing discrepancy between the demand and supply of medical service, and the payment pressure of public medical insurance is also increasingly tense. In the process of development of the medical service industry in China in the future, it is expected that the development will rely on the core medical resources of the public hospitals to combine the commercial insurance, pension and rehabilitation under a public-private medical system. Amidst the current macro environment, the change in population structure, accelerating ageing population and favorable policies after new health care reform, which encourages hospital establishment by private sector, all of these bring forth a golden development period for the medical service industry, especially the private hospitals.

The pharmaceutical distribution industry in the PRC is more complicated and diversified when comparing with the developed countries. Based on the international standards, the pharmaceutical distribution industry in China is still immature and is in the period of rapid change, which may bring opportunities and challenges to all stakeholders of the distribution industry. The following factors will continue to drive the industry consolidation: 1) government policies such as "two vote system", which only allows interaction between single level of distributor and the supply side (manufacturer) and the demand side (hospital); 2) stricter regulation requirements (for instance, GSP standard) will eliminate incompliant and small distributors; 3) the growth of chain pharmacies; and 4) new distribution mode such as e-commerce.

BUSINESS STRATEGY

Iron Ore Industry

According to the previous analysis, the management believes that, although the long term relationship between supply and demand is not optimistic in iron ore industry, but in the predictable period, the price of iron ore will remain stable. Facing the above market conditions, the management has taken series of measures to improve the overall operating efficiency and return in order to maintain shareholders' value, including:

1. Plan every mine's annual productivity properly and keep up with the changes of market conditions to continuously improve operation cash flow; and

2. Continue to improve the level of the Group's meticulous management by adjustment of administrative branches, reduction of personnel, control of operating expenditures and cut of investment to save costs in an effort to further control cash costs.

Medical Industry

The Group is committed to taking the medical industry as the future direction of the Group's business, and will expand the Group's medical service through the following strategies:

1. The Group will leverage the construction of the Beijing-Tianjin-Hebei integration, and take the advantages of capital platform in the Beijing-Tianjin-Hebei region through mergers and acquisitions and other cooperative measures to actively expand the hospital management network;

2. The Group is committed to entering the pharmaceutical logistics and retail industry, entering the field of pharmaceutical supply chain through the mergers and acquisitions of pharmaceutical logistics and retail enterprises in the region and a variety of other cooperative measures, improving operational performance through the exclusive provision of medicine to the downstream hospital management network, positive development of retail medicine and other measures;

3. Leveraging the pharmaceutical retail business and pharmaceutical electrical business, improving operational performance and accumulating industry data through the combination of pharmaceutical logistics industry and the Internet medicine sales business; and

4. Actively exploring the development potential of informational medical service relying on the medical institution network of the Group, and the industry data of pharmaceutical logistics and retail business.

REPORT OF THE DIRECTORS

The Directors are pleased to present the report of the Directors together with the audited consolidated financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the exploration, mining, processing and trading of iron ore products and the major products include iron ores, preliminary concentrates and iron ore concentrates. The Company completed the acquisition of 100% of the issued share capital of the Target Company on 13 July 2016. The Target Group principally engaged in hospital management business. Details of the principal subsidiaries of the Company are set out in note 18 to the consolidated financial statements.

BUSINESS REVIEW

As to the deliberate review of the Group's business and the discussion and analysis of the Group's performance pursuant to the Schedule 5 of the Companies' Ordinance, Chapter 622 of the Laws of Hong Kong, including the discussions of the major risks and uncertainties of the Group faces, the disclosure of the future business development the Group will probably achieve and the using of financial key performance indicators and environmental policies, please refer to the Chairman's Report, Management Discussion and Analysis and the Environment, Society and Governance Report of this report. These discussions consists part of this Report of the Directors.

PRINCIPAL RISKS AND UNCERTAINTIES

A number of factors may affect the results and business operations of the Group, some of which are inherent to the business of the Group and some are from external sources. Major risks are summarized below:

The risks arising from macro-economy

The Company's business is conducted in China. Therefore, the Company's business performance, financial position and future outlook are influenced by China's macro economy. As China's economy are in a stage of transformation and upgrade, the structural reform of surplus capacities on the supply side will pose potential influence on the Company's business. The Group will cope with these risks by entering the healthcare business positively while maintaining the stability of current mining business.

Risks arising from competition

According to the report or production information published by major international iron ore producers, production plan previously formulated by such producers will continue to be performed and there will be no large-scale cut of productivity. As a result, their low-cost products will continue to enter the international markets including China, and domestic steel manufacturers will import more of their iron ore products, which will affect the sales of domestic iron ore producers. The Group will try to maintain its market share through active marketing strategy and good relationship with downstream customers.

Risks arising from product price fluctuations

Under the influence of various factors, such as continuous downturn of economy, structural adjustment, economic transformation and environmental protection management, it is expected that there will be a further decrease in the demand for steel which will in turn affect the demand for the Group's iron ore products. Moreover, it will be difficult for the oversupply of steel production capacity to be resolved in the short run and the problem of imbalance of supply and demand is still severe and as such the downturn pressure of iron ore price still remains high.

The Group will leverage on its low-cost advantage and increase production and sale in good market conditions to hedge the risk of declining price. The Group will also reduce cost by technology upgrade and refined management and cutting administrative expenses through reducing staff. The above measures combined will help the Group to minimize the impact on the profitability brought by declining price.

Risks arising from accounts receivable

The Group granted some customers certain credit period in accordance with the credit status of the customers as well as business practices, which resulted in the Group having accumulated some trade receivables. However, due to the sluggish and continuous downturn of iron ore's down-stream products, if certain customers experienced cash flow problem, their debt repayment ability will be affected, which will in turn lead to the extension of credit period, making the Group more difficult to recover the trade receivables from the customers. The Group has established internal control system and accounts receivable management system, which require regular update of customers' credit status and enhance the effort to collect trade receivables in an effort to reduce the risk of bad debt.

Risks arising from safety production

Although the Group is committed to maintaining a high level of safety in the production process, iron ore mining, one of the main business activities of the Group is relatively hazardous by its nature and affected by a number of external factors which are beyond the control of the Group, including the production environment and natural disaster. Safety production is significant to the sustainable and stable development of the Group. The Group has established safety production system and set up specific department to supervise the performance, and ensure the safe production of the Group's operating mines through safety education and improvement of infrastructures.

ENVIRONMENTAL POLICIES AND COMPLIANCE WITH LAWS AND REGULATIONS

The Group recognizes that proper adoption of environmental policies is essential to the sustainability of corporate growth, and has established specific department to supervise the compliance of the Group with environmental laws and regulations. During the daily operations, the Group has paid close attention to the latest development of environmental protection laws and regulations to ensure that the Group's environmental policies are in line with the legal standard in order to contribute to an environment-friendly society.

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations, including but not limited to those which have significant impact on the Group, such as the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the International Financial Reporting Standards. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time. As far as the Board is aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. For further details, please refer to the "Environmental, Social and Governance Report" of this report.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group recognizes the significance of good relationship with employees, customers and suppliers to the long-term development of the Group's business.

As to the employees' relationship, the Group has taken various measures to improve employees' benefit, provided training opportunities for each job position and adopted a performance management system that enhances employees' career development.

As to the relationship with customers and suppliers, the Group has always adhered to business principles with integrity and bona fide. As at the date of this report, the Group did not have any disputes with major customers and suppliers, and contracts with them were all entered into and performed on mutually beneficial basis.

RESULTS

The Group's profit for the year ended 31 December 2016 and the positions of the Group and the Company as at that date are set out on pages 78 to 80 and page 143 of this report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group for the year ended 31 December 2016 are set out in note 12 to the consolidated financial statements.

SHARE CAPITAL

The shares of the Company (the "Shares") was listed on the Main Board of the Stock Exchange on 28 November 2013. The Company has a share capital of HK$1,000,000 divided into 10,000,000,000 Shares of HK$0.0001 each, of which 1,635,329,892 Shares had been issued.

PRE-EMPTIVE RIGHTS

Pursuant to the articles of association (the "Articles") of the Company (the Company was incorporated in the British Virgin Islands and continued in the Cayman Islands) and the laws of the Cayman Islands, there is no provision in relation to pre-emptive rights applicable to the Company.

SHARE OPTION SCHEME

As at the date of this report, the Company did not adopt any share option scheme.

RESERVES AND DISTRIBUTABLE RESERVES

Details of the movements in the reserves of the Group during the year ended 31 December 2016 are set out in the Consolidated Statement of Changes in Equity on page 81 of this report and the details of reserves attributable to equity holders of the Company are set out in note 31 to the consolidated financial statements.

Under the Companies Law, subject to the provision of its Articles, the share premium account may be applied by the Company in paying distributions or dividends to its members or in paying up unissued Shares to be issued to its members as fully paid bonus Shares provided that no distribution or dividend may be paid to members out of the share premium account unless, 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 course of business.

The reserves of the Company available for distribution depend on the dividend distributable by the Company's subsidiaries. For dividend purpose, the amount which the Company's subsidiaries in the PRC can legally distribute by way of a dividend is determined by reference to their distributable profits as reflected in the PRC statutory financial statements which are prepared in accordance with accounting principles generally accepted in the PRC. These distributable profits differ from those that are reflected in the Group's financial statements prepared in accordance with the IFRSs.

DIVIDENDS

The Board does not recommend the distribution of a final dividend for the year ended 31 December 2016.

ANNUAL GENERAL MEETING

The 2017 annual general meeting of the Company (the "2017 AGM") will be held at 2:30 p.m. on 29 May 2017 at Taishan Room, Level 5, Island Shangri-La, Two Pacific Place, Supreme Court Road, Central, Hong Kong.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 23 May 2017 to 29 May 2017 (both days inclusive). In order to qualify for attending and voting at the 2017 AGM, 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 22 May 2017.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

For the year ended 31 December 2016, neither the Company nor its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

MAJOR CUSTOMERS AND SUPPLIERS

The total sale and purchase from the Group's major suppliers and customers are set as follows:

	2016		2015	
	% of the Groups total		% of the Groups total	
	Sale	Purchase	Sale	Purchase
Largest customer	**38.5%**	**–**	44.1%	–
Total of five largest customers	**89.8%**	**–**	93.0%	–
Largest supplier	**–**	**16.4%**	–	15.5%
Total of five largest suppliers	**–**	**49.7%**	–	47.6%

So far as the Directors are aware, none of the Directors, their close associates (as defined in the Listing Rules) or Shareholders (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 ended 31 December 2016.

BANK BORROWINGS AND OTHER BORROWINGS

As at 31 December 2016, details of the bank borrowings and other borrowings of the Group are set out in note 26 to the consolidated financial statements.

DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth certain information in respect of the Directors and senior management during the year ended 31 December 2016 and as at the date of this report.

Name	Position/Title in the Group	Date of Appointment and Re-election
Li Yanjun	Chairman and Executive Director	26 May 2016
Leung Hongying Li Ziwei (also known as Li Ziwei)	Vice Chairman and Executive Director	10 June 2014
Huang Kai	Executive Director and Chief Executive Officer	26 May 2016 30 March 2016 (appointed as the Chief Executive Officer)
Xia Guoan	Executive Director and Chief Executive Officer, director and the general manager of Aowei Mining	resigned on 30 March 2016 as an executive Director and Chief Executive Officer and director and the general manager of Aowei Mining
Sun Jianhua	Executive Director and Chief Financial Officer	10 June 2014
Li Jinsheng	Executive Director and general manager of Aowei Mining	26 May 2016 30 March 2016 (appointed as the general manager of Aowei Mining)

Name	Position/Title in the Group	Date of Appointment and Re-election
Tu Quanping	Executive Director	28 May 2015
Ge Xinjian	Independent Non-executive Director	26 May 2016
Meng Likun	Independent Non-executive Director	10 June 2014
Kong Chi Mo	Independent Non-executive Director	28 May 2015
Gao Changquan	Deputy general manager of Aowei Mining	12 March 2016
Li Shaoshun	Director and deputy general manager of Aowei Mining	12 March 2016 (appointed as deputy general manager of Aowei Mining) 1 November 2016 (appointed as director of Aowei Mining)
Li Dongfeng	Director of Aowei Mining and general manager of Jiheng Mining	8 June 2011 (appointed as director of Aowei Mining) 10 August 2010 (appointed as the general manager of Jiheng Mining)
Jin Jiangsheng	General manager of Jingyuancheng Mining and Xinxin Mining	22 March 2012 (appointed as the general manager of Jingyuancheng Mining) 15 April 2016 (appointed as the general manager of Xinxin Mining)

In compliance with rules 3.10(1) and 3.10(2) of the Listing Rules, which states the Company should appoint a sufficient number of independent non-executive Directors and that at least one of them must have appropriate professional qualifications or accounting or related financial management expertise, the Company appointed three independent non-executive Directors.

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

CHANGE OF INFORMATION OF DIRECTORS

As at the date of this report, save as disclosed in the section headed "Directors" above, there was no information relating to our Directors which is discloseable according to Rule 13.51B of the Listing Rules.

BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENT

Detailed biographies of the Directors and senior management are set out on pages 67 to 71 of this report.

SERVICE CONTRACTS OF THE DIRECTORS

The Company has re-entered into a service contract with each of the Directors (save for Mr. Li Jinsheng), the term of which is 3 years commencing from 28 November 2016.

Mr. Li Jinsheng, an executive Director, has entered into a service agreement with the Company for a term of three years commencing from 30 March 2016.

None of the Directors has signed with the Company any service contract that cannot be terminated by the Company without compensation (exclusive of statutory compensation) within one year.

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 has agreed to waive any remuneration for the year ended 31 December 2016.

The remuneration for the Directors was proposed by the remuneration committee of the Company (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.

DIRECTORS' INTERESTS IN CONTRACTS

For the year ended 31 December 2016, the Company (and its subsidiaries) had not concluded any contracts of significance, in which any Director directly or indirectly has material interests, and which subsisted during the Year or at the end of the Year.

SIGNIFICANT SUBSEQUENT EVENTS

There were no significant subsequent events affecting the Group which occurred since 1 January 2016 and up to the date of this report.

DIRECTORS' INTERESTS IN COMPETITIVE BUSINESS

As at 31 December 2016, having made specific enquiry of all Directors, all of them have confirmed that neither themselves nor their respective close associates (as defined in the Listing Rules) held any competitive interests in any business which competes or is likely to compete either directly or indirectly with the business of the Group.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2016, the interests or short positions of the Directors and chief executive 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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which 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 Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

(1) Interests in the Shares:

Name of Directors and Senior Management	Capacity/Nature of Interest	Number of Shares (Long Position)	Approximate Percentage of Issued Shares
Mr. Leung Hongying Li Ziwei (also known as Li Ziwei)	Founder of a discretionary trust(2)	1,221,877,000(L)	74.72%
Mr. Li Yanjun	Interests held jointly with another person(2)	1,221,877,000(L)	74.72%

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 1,188,127,000 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2016 and so far as is known to the Directors, the interests or short positions of the 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, who had 5% or more interests or short positions in the Shares and underlying Shares 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	Approximate Percentage in issued shares
Aowei International Developments Limited	Beneficial owner(2)	1,221,877,000(L)	74.72%(L)
Chak Limited	Interest in controlled corporation(2)	1,221,877,000(L)	74.72%(L)
Credit Suisse Trust Limited	Trustee	1,221,877,000(L)	74.72%(L)
Hengshi Holdings Limited	Interest in controlled corporation(2)	1,221,877,000(L)	74.72%(L)
Hengshi International Investments Limited	Beneficial owner(2)	1,221,877,000(L)	74.72%(L)
Seven Limited	Interest in controlled corporation(2)	1,221,877,000(L)	74.72%(L)
Jovial Link Investments Limited	Interests held jointly with another person(3)	129,391,892(L)	7.91%(L)
Lee Sam Mui	Beneficial owner Interests held jointly with another person	129,391,892(L)	7.91%(L)
Li Chung Tai	Beneficial owner Interests held jointly with another person	129,391,892(L)	7.91%(L)
Li Shunfa	Beneficial owner Interests held jointly with another person	129,391,892(L)	7.91%(L)

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 1,188,127,000 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 1,188,127,000 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 1,221,877,000 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.

(3) Jovial Link was the entity entitled to receive an aggregate of 127,486,892 Consideration Shares in consideration of its sale of the entire issued share capital of the Target Company to the Company. Mr. Li Chung Tai, Mr. Li Shunfa and Ms. Lee Sam Mui were nominated by Jovial Link to receive the Consideration Shares. Therefore, Mr. Li Chung Tai, Mr. Li Shunfa and Ms. Lee Sam Mui are deemed to be jointly interested in the Shares. Prior to receiving the Consideration Shares, Mr. Li Chung Tai holds 1,905,000 Shares as beneficial owner. Upon allotment and issue of the Consideration Shares, Mr. Li Chung Tai, Mr. Li Shunfa and Ms. Lee Sam Mui holds 52,763,756 Shares, 38,246,068 Shares and 38,382,068 Shares as beneficial owner, 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 31 December 2016.

MANAGEMENT CONTRACTS

For the year ended 31 December 2016, there was no contract entered into by the Company or subsisting which related to the management and administration of all or a substantial part of the business of the Company.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The related party transactions which also constitute connected transactions as defined in Chapter 14A of the Listing Rules were disclosed in note 34 to the consolidated financial statements. The Company has complied the disclosure requirements in accordance with Chapter 14A of this Listing Rules for the year ended 31 December 2016.

Non-exempt Continuing Connected Transactions

On 6 January 2014, Hebei Aowei Industrial Group Co., Ltd. (the "Aowei Group") entered into the property leasing framework agreement (the "2014 Property Leasing Framework Agreement") with the Company, pursuant to which the Company rented properties from Aowei Group as office premises.

Annual caps for the transactions contemplated under the 2014 Property Leasing Framework Agreement for the year ended 31 December 2014, 2015, 2016 are set out as follows.

	For the year ended 31 December		
	2016	**2015** **(RMB Millions)**	**2014**
Estimated amount of rent to be paid by the Company to Aowei Group	**2.0**	2.0	2.0

Since the 2014 Property Leasing Framework Agreement would expire on 31 December 2016 and the Group intended to renew the leases entered into pursuant to the 2014 Property Leasing Framework Agreement, and enter into further leases with Aowei Group in respect of other premises owned by Aowei Group in Beijing and Baoding, the PRC, the Company thus entered into the property leasing framework agreement (the "2016 Property Leasing Framework Agreement") on 8 December 2016 with Aowei Group.

Annual caps for the transactions contemplated under the 2016 Property Leasing Framework Agreement for the year ending 31 December 2017, 2018, 2019 are set out as follows.

	For the year ending 31 December		
	2017	**2018** **(RMB Millions)**	**2019**
Estimated amount of rent to be paid by the Company to Aowei Group	4.35	4.35	4.35

As Mr. Li Yanjun is one of the Directors and controlling Shareholders of the Company, pursuant to Rule 14A.07 of the Listing Rules, Mr. Li Yanjun is a connected person of the Company. Given that the equity interests of Aowei Group are owned by Mr. Li Yanjun and Mr. Li Xiaojun as to 99% and 1%, respectively, Aowei Group, pursuant to Rule 14A.12(1)(C) of the Listing Rules, is an associate of Mr. Li Yanjun. Therefore, Aowei Group is also a connected person of the Company under Rule 14A.07(4) of the Listing Rules and the transactions contemplated under the 2016 Property Leasing Framework Agreement constitute continuing connected transactions of the Company under the Listing Rules. For further details of the above transactions, please refer to the Company's announcements dated 6 January 2014 and 8 December 2016, respectively.

All independent non-executive Directors had reviewed the above continuing connected transaction and confirmed that those transactions had been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) either on normal commercial terms or, if there were no sufficient comparable transactions to judge whether they were on normal commercial terms, on terms no less favorable to the Company than terms available to or from (as appropriate) independent third parties; and

(3) in accordance with the relevant agreement governing the relevant transactions on terms that were fair and reasonable and in the interests of the Shareholders as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to the Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Company's auditor has issued their unqualified letter containing the auditor's findings and conclusions in respect of the continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules, and reported that:

(1) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Board;

(2) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

(3) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreement governing such transactions; and

(4) with respect to the aggregate amount of the continuing connected transactions, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the maximum aggregate annual value disclosed in the previous announcement made by the Company in respect of the disclosed continuing connected transactions.

A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

COMPLIANCE OF DEED OF NON-COMPETITION

The Company entered into a deed of non-competition (the "Deed of Non-Competition") with Mr. Leung Hongying Li Ziwei, Mr. Li Yanjun, Hengshi International Investments Limited and Hengshi Holdings Limited (collectively, 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 business of the Group, being the exploration, mining, processing and trading of iron ore products and the major products include iron ores, preliminary concentrates and iron ore concentrates (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 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 conducting annual review of implementation of the Deed of Non-Competition on behalf of the Company. Each Controlling Shareholder has made annual confirmation of compliance with the Deed of Non-Competition, and the independent non-executive Directors have also reviewed the implementation of the 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.

RETIREMENT AND EMPLOYEES' BENEFIT PLAN

Detailed information on the retirement and employees' benefit plan of the Company is provided in note 6(b) to the consolidated financial statements.

COMPLIANCE OF THE CORPORATE GOVERNANCE CODE

As a listed company on the main board of the Stock Exchange, the Company is committed to maintaining high level of corporate governance. Throughout the year ended 31 December 2016, the Company has fully complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. Please refer to Corporate Governance Report in this report for details.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirmed that, the Company has maintained the amount of public float as required under the Listing Rules as at the latest practicable date prior to the issue of this report.

SIGNIFICANT LEGAL PROCEEDINGS

For the year ended 31 December 2016, 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 against the Group.

AUDIT COMMITTEE

The audit committee under the Board (the "Audit Committee") has reviewed the Group's annual results for 2016 and the consolidated financial statements for the year ended 31 December 2016.

AUDITOR

KPMG was engaged as auditor of the Company for the year ended 31 December 2016. KPMG has audited the accompanying consolidated financial statements which were prepared in accordance with International Financial Reporting Standards.

The Company has retained KPMG as its auditor since the date of listing.

KPMG will retire and, being eligible, offer themselves for re-appointment at the 2017 AGM. A resolution for the re-appointment of KPMG as auditor of the Company is to be proposed at the 2017 AGM.

FINANCIAL HIGHLIGHTS

The operating results, assets and liabilities highlights of the Group for the last five fiscal years are stated on pages 5 and 6 of this annual report.

SIGNIFICANT CONTRACTS

Save as disclosed in the section headed "Connected Transactions and Continuing Connected Transactions" of this 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.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the year ended 31 December 2016. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against its Directors.

FINANCIAL ASSISTANCE AND GUARANTEE TO AFFILIATED COMPANIES BY THE COMPANY

For the year ended 31 December 2016, the Company has not granted any financial assistance and guarantee to its affiliated companies.

LOAN TO AN ENTITY

For the year ended 31 December 2016, the Group has not granted any loans to an entity.

By order of the Board

Mr. Li Yanjun
Chairman of the Board

Beijing, 16 March 2017

CORPORATE GOVERNANCE REPORT

The Company has adopted the code provisions in the Corporate Governance Code (the "Corporate Governance Code") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The Directors are committed to upholding the corporate governance of the Company to ensure that formal and transparent procedures are in place to protect and maximize the interests of the Shareholders. The principles, code provisions and certain recommended best practices set out on the Corporate Governance Code, are in the best interest of the Company and the Shareholders. The Company believes that good corporate governance provides a framework that is essential for ensuring effective management, successful business development and growth in Shareholders' value.

The Directors considered, during the Reporting Period, the Company has fully complied with each of the principles and code provisions of the Corporate Governance Code and majority of the recommended best practices set forth thereunder.

Detailed discussions of the code provisions of the Corporate Governance Code adopted and complied with by the Company during the Reporting Period are set out below.

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 Directors and all Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2016.

BOARD COMPOSITION AND PRACTICES

The Board

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

During the Reporting Period and up to the date of this report, the composition of the Board was as follows:

Executive Directors

Mr. Li Yanjun *(Chairman)*
Mr. Leung Hongying Li Ziwei *(Vice Chairman)*
Mr. Huang Kai *(appointed as Chief Executive Officer on 30 March 2016)*
Mr. Xia Guoan *(Chief Executive Officer) (resigned on 30 March 2016)*
Mr. Sun Jianhua *(Chief Financial Officer)*
Mr. Li Jinsheng *(appointed on 30 March 2016)*
Mr. Tu Quanping

Independent non-executive Directors

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

Up to the date of this report, the Company had three independent non-executive Directors in total, representing one-third of the total number of Directors. The detailed information of the Directors is set out in the section headed "Biographies of Directors and Senior Management" of this report. Mr. Li Yanjun and Mr. Leung Hongying, Li Ziwei are parent-child relationship. Save as disclosed above, none of the members of the Board has any financial, business or family relationships or any relationships in other material aspects with other members.

Each of Mr. Ge Xinjian, Mr. Meng Likun and Mr. Kong Chi Mo (all being independent non-executive Directors) has re-entered into a service contract with the Company for a term of three years, commencing on 28 November 2016, and may be terminated at any time by any party at no less than three months' prior written notice.

In accordance with the Articles, 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 re-election. Mr. Leung Hongying Li Ziwei, Mr. Sun Jianhua and Mr. Meng Likun will retire from office as Directors at the 2017 AGM, and being eligible, offer themselves for re-election.

During the Reporting Period, the Company has appointed sufficient number of independent non-executive Directors who are equipped with relevant qualification in accordance with the requirements of the Listing Rules. As of the date of this report, the Company has three independent non-executive Directors in total, which include: a certified public accountant with accounting and financial management expertise, an expert with managerial experience in financial industry and an expert focusing on processing research, design and technological 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 annual confirmation of their independence from each of the independent non-executive Directors and considers them to be independent of the management of the Company and free of any relationship that could materially interfere with the exercise of their independent judgment. The Board considers that each of the independent non-executive Directors is able to bring his own relevant expertise to the Board.

Board Meetings

The Company has adopted the provisions of the Corporate Governance Code and issues meeting notices 14 days before convening a regular Board meeting (for interim Board meetings, a reasonable notice had be given) so that all Directors can have sufficient time to plan for their attendance. All meeting documents 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; minutes will be made; and resolutions will also be filed. The Board had held five meetings for the year ended 31 December 2016.

During the Reporting Period, the details of Directors' attendance of the Board meetings, special committee meetings under the Board were as follows:

		Specialized Committees under the Board		
Name of Directors	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
Li Yanjun	5/5	–	–	1/1
Leung Yonghong Liziwei	5/5	–	2/2	–
Huang Kai	5/5	–	–	–
Xia Guoan (resigned on 30 March 2016)	–	–	–	–
Sun Jianhua	5/5	–	–	–
Li Jinsheng	5/5	–	–	–
Tu Quanping	5/5	–	–	–

Name of Directors	Board of Directors	Specialized Committees under the Board Audit Committee	Remuneration Committee	Nomination Committee
Independent Non-executive Directors				
Ge Xinjian	5/5	2/2	2/2	1/1
Meng Likun	5/5	2/2	2/2	–
Kong Chi Mo	5/5	2/2	–	1/1

In the event that if any Director has any significant conflicts of interests in the matters to be considered in the Board meetings, the Directors had abstained from voting in relation to the relevant resolutions. All independent non-executive Directors who have no significant interest in the transactions have attended the relevant Board meetings. All Board decisions were passed by way of resolutions. Minutes of the Board meetings and specialized committee meetings were prepared and maintained by the company secretaries.

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 that 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 raise and include any matters that should 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 Group and to better facilitate the discharge of their duties. The management team is accountable to the Board, executing the strategies and plans formulated by the Board, and making decisions in relation to the day-to-day operation of the Group. The management reports monthly to the Board on the operation and financial performance of the Group.

Chairman of the Board and Chief Executive Officer

The positions of the chairman of the Board and the chief executive officer of the Company are held by different individuals in order to ensure the independence and accountability of their respective duties and a balanced distribution of power and authority between them. Mr. Li Yanjun is the chairman of the Board and is responsible for the management and effective operation of the Board, ensuring that all major and appropriate issues are discussed by the Board in a timely and constructive manner. On 30 March 2016, Mr. Xia Guoan had resigned as, among others, the chief executive officer of the Company and Mr. Huang Kai, an executive Director, was appointed as the new chief executive officer of the Company, who was responsible for the daily operational activities of the Group and accountable to the Board for the overall operations of the Group. During the Reporting Period, the chairman of the Board held one meeting with the non-executive Directors (including independent non-executive Directors) in the absence of the executive Directors.

Appointment and re-election of Directors

Code provision A.4.1 of the Corporate Governance Code stipulates that non-executive Directors shall be appointed for a specific term and, 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 is appointed for a specific term of three years, and will retire from office by rotation every three years.

Directors' training

According to code provision A.6.5 of the Corporate Governance Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contributions to the Board remains informed and relevant.

All Directors have been provided with training on their duties and responsibilities as a director of a listed company and the compliance issues under the Listing Rules. The Company continuously updates Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure their compliance and enhance their awareness of good corporate governance practices.

Directors had provided the Company with their respective training records pursuant to the Corporate Governance Code. During the Reporting Period, all Directors have participated in appropriate continuous professional development by ways of attending training or reading materials relevant to the Company's business or to Directors' duties and responsibilities.

The records of the training attended by the Directors are set out as follows:

Name	Position	Types of Training
Li Yanjun	Chairman and Executive Director	B
Leung Yonghong Liziwei	Vice Chairman and Executive Director	B
Huang Kai	Executive Director and Chief Executive Officer	B
Xia Guoan	Executive Director and Chief Executive Officer (resigned on 30 March 2016)	–
Sun Jianhua	Executive Director and Chief Financial Officer	A, B
Li Jinsheng	Executive Director	A, B
Tu Quanping	Executive Director	B
Ge Xinjian	Independent non-executive Director	B
Meng Likun	Independent non-executive Director	B
Kong Chi Mo	Independent non-executive Director	A, B

A: attending seminars and/or conferences and/or forums relating to directors' duties or other relevant topics

B: reading newspaper, journals and updates relating to the economy, general business or directors' duties etc

Directors' liability insurance

The Company has arranged liability insurance for our Directors and such liability insurance has been effected since 1 May 2014, and arranged renewal of the insurance to ensure effectiveness of the insurance contract during the Reporting Period.

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 (the "Policy") in November 2013, to ensure that 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 amendments that may be required to be made and make recommendations for amendments to the Board for approval.

Directors' remuneration policy

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

Specialized committees under the Board

The Company established the Audit Committee, the Remuneration Committee and the nomination committee (the "Nomination Committee") to provide the Board with specialized decision-making support. On 3 December 2015, a Board meeting was held to revise the terms of reference of each of the committees, which reviewed comprehensively the duties and functions in accordance with the Listing Rules as well as its amendment, and unified the format and style of the terms of reference. Specifically, the Company revised systematically the terms of reference of the Audit Committee as required by Appendix 14 of the Listing Rules, which emphasized the new rules regarding risk management, among other things, in the corporate governance report. The new terms of reference of Audit Committee have adopted duties of risk management to the Audit Committee, and certain rules that define duties of risk management are added where applicable.

Audit Committee

For the year ended 31 December 2016 and as at the date of this report, the members of the Audit Committee of the Company were as follows:

Independent non-executive Directors:

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

The duties of the Audit Committee are as follows:

Relationship with the Company's auditors

(a) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the Company's external auditor, and to approve the remuneration and terms of engagement of the Company's external auditor, and any questions of its resignation or dismissal;

(b) to review and monitor the Company's external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences. Should there be more than one auditor firm participating, the Committee shall ensure the coordination between them;

(c) to develop and implement policy on engaging the Company's external auditor to supply non-audit services. 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. The Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

Review of the Company's financial information

(d) to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them. In reviewing these reports before submission to the Board, the committee should focus particularly on:

(i) any changes in accounting policies and practices;

(ii) major judgmental areas;

(iii) significant adjustments resulting from audit;

(iv) the going concern assumptions and any qualifications;

(v) compliance with accounting standards; and

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

(e) Regarding (d) above:

(i) Members should liaise with the Board and senior management of the Company and the Committee must meet, at least twice a year, with the Company's auditors; and

(ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

(f) to discuss with the Company's external auditors questions and doubts arising in audit of interim and annual accounts, and other matters that the auditors wish to discuss (may conduct in the absence of the Company's management if necessary);

(g) to review the letter to the Company's management from the Company's external auditors and the management's response;

(h) if the Company's annual report includes statement about the Company's internal control system, to review such statement prior to submission for the Board's approval;

Oversight of the Company's financial reporting system, risk management and internal control systems

(i) to review the Company's financial reporting and controls, risk management and internal control systems;

(j) to discuss the risk management and internal control systems with the Company's management to ensure that management has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;

(k) to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

(l) where an internal audit function exists in the Company, to ensure co-ordination between the Company's internal and external auditors, and to ensure that the Company's internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;

(m) to review the financial and accounting policies and practices of the Group;

(n) to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;

(o) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

(p) to report to the Board on the matters in this terms of reference;

(q) to consider other topics, as defined by the Board;

Others

(r) to review arrangements: employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow up action;

(s) to act as the key representative body for overseeing the Company's relations with the Company's external auditor; and

(t) to conform to any requirement, direction, and regulation that may from time to time be contained in the memorandum of the Company and the Articles or imposed by the Listing Rules or applicable law.

The Audit Committee held two meetings in 2016 and reviewed both the Group's annual results of 2015 and the interim results of 2016. The Audit Committee also reviewed the internal control system of the Company, and discussed the risk behind the fluctuation of the global exchange rate and iron price. During the Reporting Period, the Audit Committee held a meeting with the external auditors without the presence of the executive Directors and senior management of the Company. The Audit Committee has also reviewed the Group's annual results for the Reporting Period and this annual report, and confirmed that this report complies with the requirements of the Listing Rules.

Remuneration Committee

For the year ended 31 December 2016 and as at the date of this annual report, the members of the Remuneration Committee of the Company were as follows:

Executive Director	Independent non-executive Directors
Leung Hongying Li Ziwei	Meng Likun *(Chairman)*
	Ge Xinjian

The primary duties and authorities of the Remuneration Committee are as follows:

(a) make recommendations to the Board on the company's policy and structure for all directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(b) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

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

(d) assess the performance of executive Directors, senior management and general staff in accordance with their respective performance standards with reference to market standards, consider annual performance bonuses for the relevant officers and staff and make recommendations to the Board;

(e) to make recommendations to the Board on the remuneration of non-executive Directors;

(f) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the group;

(g) to review and approve 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 and not excessive;

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

(i) review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;

(j) to ensure that no Director or any of his associates is involved in deciding his own remuneration; and

(k) conform to any requirement, direction, and regulation that may from time to time be contained in the memorandum and articles of association of the Company or imposed by the Listing Rules or applicable law.

The Remuneration Committee promulgated procedure rules, clarified the terms of reference, reviewed remuneration policies of Directors, assessed the performance of executive Directors and reviewed the terms of service contracts of executive Directors. For the year ended 31 December 2016, the Remuneration Committee held two meetings, pursuant to which it had reviewed the remuneration components, incentives and allowances payable to the Directors and senior management, and the service agreements of some Directors. All members of the Remuneration Committee had attended the two meetings. The Remuneration Committee made recommendations to the Board on the remuneration packages of individual executive Director and senior management. In 2016, the Remuneration Committee had further perfected the remuneration of the Directors and senior management and the review system of the Company and as well as following up with the remuneration policies of the Company and the review results of staff at all levels.

Nomination Committee

For the year ended 31 December 2016 and as at the date of this report, the members of the Nomination Committee of the Company were as follows:

Executive Director	Independent non-executive Directors
Li, Yanjun *(Chairman)*	Meng Likun
	Kong Chi Mo

The primary duties and authorities of the Nomination Committee are as follows:

(a) review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships. The Board and shareholders shall be provided with detailed curriculum vitae of nominated candidates so that they can make well-informed decisions;

(c) identify and nominate candidates to fill temporary vacancies of Directors for the approval of the Board;

(d) assess the independence of independent non-executive Directors, review 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";

(e) review the time required by directors in performing their responsibilities on a regular basis;

(f) make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive;

(g) under suitable circumstances, review the Board Diversity Policy, measurable objectives and the progress made when the members of the Board implement the Board Diversity Policy, as well the annual disclosure of the findings in the "Corporate Governance Report"; and

(h) conform to any requirement, direction, and regulation that may from time to time be contained in the memorandum and articles of association of the Company or imposed by the Listing Rules or applicable law.

For the year ended 31 December 2016, the Nomination Committee held one meeting. All members of the Nomination Committee had attended the meeting. The meeting discussed the policies on the diversity of the Board and the independence of the independent non-executive directors. The meeting also proposed the retirement and re-election of some directors, according to which Mr. Li Yanjun, Mr. Huang Kai, Mr. Li Jinsheng and Mr. Ge Xinjian were to retire on the annual general meeting held in 2016 and their re-election were approved by the shareholders at the general meeting.

Corporate Governance Functions

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

(a) developing and reviewing the Company's policies and practices on corporate governance;

(b) reviewing and monitoring the training and continuous professional development of Directors and senior management;

(c) reviewing and monitoring the Group's policies and practices in compliance with legal and regulatory requirements;

(d) developing, reviewing and monitoring the code of conduct and compliance manual applicable to employees and the Directors; and

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

The Board had discussed and reviewed the aforesaid works in the Board meetings held during the Reporting Period.

Remuneration of Auditor

For the year ended 31 December 2016, the Group's external auditors KPMG provided annual audit services to the Company. For the year ended 31 December 2016, 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
Annual audit services (excluding taxation and miscellaneous fees)	3,000,000
Non-audit services	680,000

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

Remuneration of Directors and Senior Management

The Company has adopted a formal and transparent procedure for fixing the remuneration packages of individual Directors and senior management. Details of the remuneration for the Directors and five individuals with the highest remuneration are set out in Note 8 and Note 9 to the consolidated financial statements of this annual report. For the year ended 31 December 2016, the remuneration for the senior management of the Company by bands is set out below:

Scope of remuneration (RMB)	Number of members of senior management
0–500,000	5
500,001–1,000,000	5
1,000,001–2,500,000	1

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

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 2016, which gave a true and fair view of the state of affairs, the results and cash flows of the Group 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 to respond 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 auditor of the Company for preparing the financial statements of the Group was set out in the independent auditor's report of this annual report.

Risk Management and Internal Controls

The Board has overall responsibility for the systems of risk management and internal controls of the Group, the risk management and internal control systems, designed to provide reasonable (but not absolute) assurance against material misstatement or loss, and to manage (but not fully eliminate) the mistakes of the Group's operational systems and the risks of failure to achieve the Group's business objectives. The Audit Committee reviewed the adequacy and effectiveness of the risk management and internal control systems of the Group through active communication and discussion with management, internal audit and external auditors. The results were reported to the Board. The Board had conducted an annual review of the risk management and internal control systems of the Group including financial, operational and compliance controls and risk management and is of the view that the existing risk management and internal control systems are effective and adequate. The Board has also reviewed the adequacy of resources, qualifications and experience of staff of the internal audit, accounting and financial reporting functions, training and budget.

The Group has established an internal control system and formulated regulations on the segregation of duties of the Board and senior management, according to which the senior management is accountable to the Board and executes the resolutions passed by the Board, as well as being entitled to manage and oversee the Group's operations.

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

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

The Group has established the Information Disclosure Management System, the Administrative Rules Governing Related Party Transactions, and the Inside Information Disclosure System which stipulate the relevant procedures for processing the inside information. Before inside information is disclosed to the public, the Board ensures that such inside information is kept confidential. The Board regularly evaluates the effectiveness of internal control.

The Group has established a specialized internal audit department, formulated relevant mechanism, and set up proper internal supervising procedures to ensure the effectiveness of internal supervision and extend its application to all of the Group's subsidiaries. The annual audit report and plan are approved by the Audit Committee.

The Company has established an independent accounting department to set out the duties and rights in relation to finance management, accounting and auditing, and assigned the relevant staff to ensure the smoothness of finance and accounting work and the separation of approval, implementation and recording functions, and formulated different systems for accounting and finance as a guarantee for fair execution.

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 the Company. Her principal contact in the Company is Mr. Meng Ziheng, the other joint company secretary of the Company.

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

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

Training for joint company secretaries

Mr. Meng Ziheng and Ms. Kwong Yin Ping, Yvonne, the joint company secretaries of the Company had received not less than 15 hours of professional training during the Reporting Period as required by Rule 3.29 of the Listing Rules.

For biographical details of Mr. Meng Ziheng and Ms. Kwong Yin Ping, Yvonne, please refer to the section headed "Biographies of Directors and Senior Management – Joint Company Secretaries" in this report.

General Meetings

During the Reporting Period, one general meeting was held on 26 May 2016. The attendance record of each Director at the general meeting is set out below:

Name of Directors	Number of Attendance
Li Yanjun	1/1
Leung Hongyong Li ZiWei	1/1
Huang Kai	1/1
Xia Guoan (resigned on 30 March 2016)	–
Sun Jianhua	1/1
Li Jinsheng	1/1
Tu Quanping	1/1
Kong Chi Mo	1/1
Ge Xinjian	1/1
Meng Likun	1/1

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.

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 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 auditor 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).

Procedures for Shareholders to convene general meetings and putting forward proposals at general meetings by Shareholders

In accordance with Article 12.3 of the Articles of Association, the Board may, whenever it thinks fit, convene an extraordinary general meeting. General meetings shall also be convened on the written requisition of any two or more members of the Company deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. General meetings may also be convened on the written requisition of any one member of the Company which is a recognised clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

In accordance with Article 16.4 of the Articles of Association, no person shall, unless recommended by the Board, be eligible for election to the office of Director at any general meeting unless during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the company secretary of the Company notice in writing by a member of the Company (not being the person to be proposed), entitled to attend and vote at the meeting for which such notice is given, of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

Shareholders may at any time lodge the aforesaid requisition or notice to the Board in writing through the Company Secretary at the Company's principal place of business in Hong Kong at 18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

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

Investor Relations and Communication

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 ongoing 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 (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.

In order to enhance effective communication, the Company redesigned its website during the Reporting Period and more functions were added to make it reader friendly. All the Company's communication message, including the documents published on the website of the Stock Exchange (www.hkexnews.hk) will also be uploaded automatically to the Company's website.

The shareholders have access to the following materials through the Company's website (www.hengshimining.com):

- the Company's Articles of Association;
- terms of reference of the Audit Committee, Remuneration Committee and Nomination Committee;
- a summary of the procedures for Shareholders to convene a general meeting, to put forward proposals at general meetings, and to propose a person for election as a Director; and
- a news archive of stock exchange announcements and media releases.

Shareholders are welcome to make enquiries directly to the Company at its principal place of business in Hong Kong at 18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong. The Company will respond to all enquiries on a timely and properly basis. The information on the Company's website will be updated on a timely basis, and the shareholders can subscribe to obtain regular update on the latest news of the Company.

In addition, during routine operation the Company strives to cater to 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.

Significant Change to the Memorandum and Articles of Association

For the year ended 31 December 2016, the Company did not make any significant changes to the Memorandum and Articles of Association of the Company.

ENVIRONMENTAL SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

The report of the year (the "Report") covers Hengshi Mining Investments Limited (the "Company") and its subsidiaries (collectively, the "Group") with its details of the subject scope set out in the shareholding structure diagram in the Corporate Information. The time range of the Report, is the financial year 2016, from 1 January 2016 to 31 December 2016 (the "Reporting Period"), and is consistent with that of the annual report of the Group.

The board (the "Board") and the directors of the Company (the"Directors") had confirmed that the Report does not contain any false information, misleading statements or material omissions, and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of its contents.

The Report has been formulated in accordance with the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") as set out in Appendix 27 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). It is the Group's first environmental, social and governance report compiled based on this guide. General disclosures are made based on the "comply or explain" provision of the ESG Reporting Guide. The 2017 report is planned to be deepened to increase coverage of key performance indicators. In line with these standards, key stakeholders, including our operation departments, management and independent third parties were engaged in the material assessment and identification of the relevant and important environmental, social and governance policies to the Group for incorporation in the Report.

The key indicators in relation to safety and environment issues of the Company are counted and calculated based on the regulations or industry standards of the People's Republic of China (the "PRC").

The Group is committed to promoting sustainable development, which is extremely important to create long-term value for the Group's shareholders, clients, employees, other stakeholders, as well as general public. The core content of the Group's environment, social and governance management includes emission management, resources utilization management and employee's health and safety management. We are committed to implement the environment and safety impact assessments in our production process comprehensively through increasingly improving our managing systems and measures, aiming to minimize the impact on environment and to ensure achieving zero fatality in production for employees. Also, the Group will fulfill our corporate social responsibility through multiple measures while sustaining the business development and providing better returns to the shareholders of the Company (the "Shareholders").

ENVIRONMENT

1. Emission management

We attach importance to waste management during operation and formulate scientific environmental impact and protection governance measures strictly in compliance with laws, regulations and environmental requirements, such as the Environmental Protection Law of the People's Republic of China (中國人民共和國環境保護法), and reduce waste generation and disposal through technological measures and methods such as recycling and reuse.

According to its actual situation, each of the operating subsidiaries established its own environmental management self-regulation system and institutional organization, which is led by a general manager and also a deputy general manager as environmental protection director under an environmental protection department with dedicated environmental protection managers served in several divisions and production workshops. Besides, the subsidiaries formulated various environmental protection management systems to ensure achieving emission targets.

The Group adopts physical magnetic separation techniques to produce iron ore concentrates without producing harmful substances during the production process. It uses open-pit operation as its mining method. Stripped waste is mainly produced during mining, waste rocks are mainly produced during dry processing, whereas tailings and waste water are mainly produced during wet processing. Mining and ore hauling in the mines as well as crushing and mechanical operating in the processing plants would produce noise and dust.

1.1 Waste rocks and tailings management

The Group would produce waste rocks and tailings during mining, dry processing and wet processing. In order to control the risks of producing waste rocks and tailings, the Group had formulated the following effective measures:

Some of the waste rocks produced in mining and dry processing will be backfilled into the mined out open-pit area or reused as construction material for roadways, retaining walls, and swales, which can reduce the waste rock volume. The rest will be sent to waste rock dump areas, and piled up and stored strictly in compliance with the planned requirement. Waste rock dump areas have retaining walls with a height of 2 m installed. Related staff members will be arranged to conduct regular check and examination.

Tailings are transported through tailings pumps and channels to the tailings storage facilities for storage, or they will be dumped in dry, transported to dewatering workshops for dewatering and delivered to the tailings storage facilities by belt conveyer for piling up in compaction. Tailing storage facilities are important for mine production. Each of the subsidiaries discharges, piles up and stores tailings strictly in compliance with the requirements of the design and safety regulation department, and arranges related staff members to check and monitor the tailings storage facilities throughout 24 hours every day.

1.2 Dust management

Dust is the main air pollutant produced by each of the subsidiaries of the Group during the operation process. Dust is classified into unorganized dust and organized dust. In order to effectively control the risks of producing dust, the Company formulated the following effective measures:

Unorganized dust includes (1) dust from rock drilling is managed by adoption of wet rock drilling, which means most of the dust produced when drilling the rocks by the drill rigs will deposit along the water flow, which effectively restrains the dust generation; (2) dust from blasting is managed by adoption of water bladder for hole plugging to reduce the amount of dust from the source of blasting; (3) dust from excavating, loading and transportation is managed by the use of two sprinklers by construction units for sprinkling and dust suppression on the roads during transportation in order to reduce dust generated by iron ore and waste rocks during loading, vehicle transportation and dumping process; and (4) dust from dumping site is managed by adoption of regular sprinkling, dust suppression and gradual reinstatement of green vegetation to effectively reduce dust from dumping site.

Organized dust includes dust generated during crushing in the dry processing plant and is managed by reduce dust mainly through bag dust collector and gravitate dust filter.

1.3 Noise management

The equipments producing high-noise during mining mainly includes drills, air compressors, water pump and transportation vehicles, which produce noise within the range between 75 to 92dB(A). The engineering department adopts measures such as low noise equipment and noise insulation pits to reduce the impacts on the surroundings.

The noise momentary value generated in blasting using open-pit mining is relatively large. As the Group adopts multi-hole and micro-differential blasting method, and mountains in between the mine sites and the sensitive targets in the surroundings act as a barrier to adsorb and intercept most noise, so as to mitigate the impacts of momentary noise generated in blasting on the surroundings. In addition, villages, separated by mountains and forest, are far away from the mining area, where noise is blocked by those barriers and reduced by distance without creating significant impacts on the nearby acoustic environment. After the noise test for the mining boundary contribution value, the noise generating equipment in the mining area fulfils the requirements of Class 3 standard under the Emisson Standard for Industrial Enterprises Noise at Boundary (GB12348-2008).

The equipment generating noise in the processing plants mainly include crushers, ore feeders, vibrating screens, ball mills, dust-collecting fans, pumps, etc. The noise value of the equipment is between 75 to 96dB(A). The equipment generating noise is located in the plants for all the projects to control impacts of noise on the surrounding environment. The adoption of the above noise-reducing measures can arrive at a level of 20dB(A). After the noise test, the noise generating in the plants fulfils the requirements of the corresponding standard limited values of Class 2 under the Emisson Standard for Industrial Enterprises Noise at Boundary (GB12348-2008).

2. Resources utilization

The Group attaches importance to and encourages saving and effective utilization of resources, and enhances efforts in recycling and reuse to reduce waste of resources strictly in compliance with related laws and regulations in the PRC. The Group establishes various managing systems. The department of production and technology is in charge of the overall working arrangements, overseeing the implementation of the following works for each subsidiary continuously.

2.1 Mining resources utilization

Based on its actual situation, each mine site optimizes its mining methods and processing techniques, enhances on-site operation management, and strictly controls mining and processing technique indicators, so as to provide utmost control over the ore loss rate and dilution rate and raise processing recovery rate. The high-pressure grinder adopted in Jingyuancheng Mining has significant impacts to raise the processing recovery rate and support energy saving.

2.2 Energy consumption

The Group's key types of energy consumed in the operating process include electricity, diesel fuel and gasoline, especially electricity, which has a big demand. The Group achieves energy saving and consumption reduction by technological upgrade, equipment renewal and enhancement of energy utilization efficiency.

The below table sets out the energy consumption level of each of the operating subsidiaries of the Group in the Reporting Period:

	Gasoline (litres)	Diesel fuel (tonnes)	Electricity (0000'KWh)
Jiheng Mining	6,250.0	889.4	5,404.0
Jingyuancheng Mining	15,816.0	927.0	7,108.0
	22,066.0	1,816.4	12,512.0

Energy consumption control and energy saving measures:

- Upgrade the existing wiring and set up electricity special lines to improve the quality of electricity transmission and reduce wiring damage; replace the existing diesel fuel generator units to achieve better energy saving results;
- Establish new processing projects with advanced level of technology and equipments and phased out backward techniques and equipments with high energy consumption;
- Optimize equipment management and improve technique operation to enhance the level of energy saving and management of the Company;
- Activate energy saving benchmarking management, formulate energy saving benchmarking management plans and initially incorporate the economic responsibility appraisal system at the Company level to implement benchmarking works; and
- Launch an energy saving system to comply with laws, regulations and rules, promote and implement industry policies, actively organize training for the staff members, to improve their energy saving awareness and skills and enhance the responsibility and initiative for energy saving.

3. Environmental and natural resources

3.1 Land resources

Resulting in land disturbance and contamination caused by surface stripping, waste rock and tailings storage, processing plant drainage, explosions, transportation, and associated buildings that are newly erected, the Group has made an impact on land resources in a certain extent during the operating process. The Group adopts environmental measures and practices to manage environmental risk of land disturbance, reclamation and site closure include proposed progressive reclamation, proposed surface stripping, proposed replanting, proposed reclamation monitoring, etc. Besides, the Group paid a Mine Environmental rehabilitation fund deposit of RMB43.0 million to local community governments from 2010 to the year ended 31 December 2016 for enhancement of ecological environmental protection and full implementation of green mines construction in response to ecological environmental protection.

3.2 Water resources

The Group strictly complies with the national and local environmental protection requirements to protect surface water resources and ground water resources, and to maximize water conservation and recycling as its principle. The mine sites of each of the subsidiaries mainly use mine water for operation. In order to fully utilize water resources, the Group uses the waste water generated by its subsidiaries through recycling. Waste water mainly comes from the water carried off with tailings discharged by processing plants. Being discharged to the tailings storage facilities, the waste water together with tailings would be precipitated and cleaned up. The remaining clean water will flow to the circulating water pumps, which pump up and transport the water back to processing plants available for processing use. As such, the waste water generated by processing plants achieves closed-loop recycling and reuse through the tailings storage facilities without being discharged to the surroundings.

SOCIETY

1. Employment and labour practices

The Group strictly follows the laws and regulations related to the Labour Law (勞動法) and the Labour Contract Law (勞動合同法), and formulates its regulations on labor management (勞動用工管理制度). The Group's employment and recruitment processes are highly transparent. Decision-making is rigorous and fact-based. The Group bases salaries on the principle of fairness and ensures that wages are no lower than the minimum wage requirements. Wages in related markets are also referenced to provide attractive compensation. The Group offers a variety of allowances to qualified employees and provides staff members with retirement protection plans as stipulated by laws and regulations. The Group welcomes diversity in its staff members. Regardless of ethnicity, religion, gender or age, all people receive equal employment opportunity in decisions, including employment decisions such as recruitment, development, promotion, training etc..

The employees of the Group will be employed, recognized and rewarded by their contribution, work performance and skills, and provided with good working environment and development opportunity.

The Group conducts open recruitment in the society according to laws. In order to prevent child labour, candidates must submit photocopies of identity cards and present the originals for verification. We adhere to the principles of "freedom in job choosing" and "two-way choice", utilizing our labour with no traces of treats, suppression, oppression, swindle, or fraud. During the Reporting Period, there had been no circumstances of any violation of the legislation and regulation such as child labour or forced labor.

As of 31 December 2016, the Group has a total of 915 employees, with 100% labor contract conclusion rate and 100% social insurance coverage rate.

The employee structure by gender and age group:

	For the year ended 31 December 2016	
	No. of employees	Percentage
By gender		
Male	888	97.0%
Female	27	3.0%
By age		
18-35	253	27.7%
35-50	571	62.4%
＞50	91	9.9%
Total employees	915	

The employee turnover structure by gender and age group:

	For the year ended 31 December 2016	
	No. of employees	Percentage
By gender		
Male	1	5.3%
Female	18	94.7%
By age		
18-35	11	57.9%
35-50	8	42.1%
＞50	0	0
Total loss of employees	19	

During the Reporting Period, there had been no major violation of the regulation in respect of recruitment and employment.

2. Health and Safety

Considering safe mine as one of its purposes, the Group puts particular emphasis on health and safety, establishes specific bodies and personnel, builds up systems and operation regulation, and strengthens the awareness of health and safety as well as guarantees safe production by various ways such as capital protection, technical upgrade, monitoring and assessment. Also, the Group earnestly adheres to the laws, regulation, standards and norms under the Prevention and Control of Occupational Diseases Law of the PRC (《中華人民共和國職業病防治法》), seriously fulfils responsibilities as an entity, persists in the principle of prevention to protect health and the related interests of staff members, improves production and operation environment, and performs well in occupational health works, so that the Group can facilitate its sustainable development.

2.1 Organization and system

Ranging from headquarter to its respective mine production workshops, the Group has built up various levels of health and safety work organizations which are responsible to implement and oversee health and safety. It forms a health and safety management system, organizational structure and staff allocation at multiple levels.

The Group has formulated and strictly implemented various health and safety production management system, position responsibilities system and operation regulation to systematize health and safety management works, standardize operation processes and clarify duties.

- To strictly implement various safety production regulations, standardize group management and lay a foundation for safety;
- To commence safety check and diagnosis on a regular basis, strengthen corrective measures, and provide supervision for implementation, in order to eliminate hidden perils;
- To seriously implement induction training for licensed safety management personnel and specific operators, and enhance occupational hygiene management works and safety management for external engaged units;
- To summon all employees to organize and commence emergency drills and awareness educational campaigns to enhance emergency management levels and emergency handling abilities; and
- To spare no efforts to commence safety production month activities, formulate and issue implementation proposal of "safety production month activities".

The Group implements effective safety management measures to ensure safety production. During the reporting period, the Group did not encounter any material casualties.

In order to set up occupational health archives, the Group requires staff members to conduct an occupational health check in the local quarantine stations before and during employment. The Group summons all employees to receive occupational health training every year for enhancing their prevention awareness. The occupational health check and occupational hazards are monitored regularly at the operation workplace. Diagnosis and troubleshooting for hidden perils are in place, whereas occupational health protection facilities are improved and equipped with necessary labor protection products.

The Group strictly materializes and implements related occupational health systems, and earnestly protects physical and mental health for all employees. During the reporting period, no occupational health accident occurred in the Group.

2.2 Safety educational training

In order to raise the safe production and prevention awareness for all employees, the Group organizes and convenes safety educational training periodically. The details of the educational safety training are as follows:

Newly recruited employees would receive three-level educational safety trainings; regular trainings are organized periodically, weekly and daily by respective companies workshop and units respectively; special skill trainings for occupational health, safe operational regulation and emergency plans are implemented for all the employees from time to time; specific trainings are implemented for special operators annually by the government competent departments for recurrence purpose; safety management trainings are implemented for safety management personnel annually by the government competent departments for recurrence purpose.

3. Development and training

Talent development is an important part of the Group's human resources strategies. Being closely related to corporate sustainable development, training can enhance the overall quality of staff members, and enables them to adapt to new requirements as well as improve their capabilities at current duties. It can also help staff members to seize their promotion opportunities and realize their own career aspirations. The Group provides effective trainings for staff members and formulates a clear promotion path to ensure staff members to be equipped with necessary skills, nurture outstanding successors and groom a good learning culture for the Group.

In accordance with the Group's development strategy needs and together with training demands, the human resources department collaborates with various departments to formulate annual training plans. Each unit organizes trainings on a regular basis according to the training plans. There will be examinations after the trainings to ensure the effectiveness of the trainings.

The training provided by the Company for different types of employee to adapt to their specific requirements of the positions are as followings:

- For ordinary staff members, trainings are provided according to their operation duties in respect of safety technique regulation, equipment operation and maintenance and repair regulation, technique systems and disciplines, environmental protection and occupational health safety.
- For technical staff members, trainings are provided according to skill levels of staff members in respect of safety technique regulation, equipment maintenance, repair and troubleshooting regulation, as well as environmental protection and occupational health safety.
- For professional technical management staff members, trainings are provided in respect of new skills, new equipment, new materials and introduction of techniques; new professional management knowledge and application of new methods and new skills; combined with supplemental knowledge for practical use.
- For junior management personnel, trainings are provided in respect of junior management methods such as group management, team building, cost reduction and efficiency enhancement and 6S on-site management; new professional management knowledge, new methods and new skills; regulation system, environmental protection and occupational health safety training.
- For middle and senior management personnel, trainings are provided in respect of new corporate management concept, new knowledge, new methods and new skills; management cases, cost control, the development trends of mining industry and advanced production craftsmanship and skills, as well as advanced corporate management learning experience. Also, counterpart inspection, experience exchange and overseas trainings are provided in a well-planned manner.

4. Supply chain management mechanism

The Group has formulated and implemented resources procurement management system which unifies the management of procurement, storage and allocation for resources required by respective mines. According to the demand plans and types of resources required by the production departments, the resources procurement is generally conducted in three ways which are tender, price enquiry and comparison, and sentinel procurement. Contracts are signed for all procurement. The Company strictly oversees the performance of contracts and monitors the payment. The Company maintains a list of suppliers, and provides evaluation and updates regularly.

The Group has a total of 156 listed suppliers which are divided into four categories: Type A has 14 strategic suppliers; Type B has 36 qualified suppliers, Type C has 67 ordinary/new suppliers; and Type D has 39 eliminated suppliers. Among the listed suppliers (excluding Type D), 54 has a registered capital of RMB5 million or above, 29 has a registered capital of RMB1 million to RMB5 million, 14 has a registered capital of less than RMB1 million. There are 20 individual cooperative enterprises.

Suppliers by geographical locations:

	Type A	Type B	Type C
Hebei Province	7	14	38
Other provinces	7	22	29
Total	14	36	67

The Group encourages suppliers to make a continuous improvement, and expects all suppliers in compliance with the laws and regulations of their countries. The Group also requires suppliers to provide a safe working environment for their staff members, ensure safety and health as an integral part of their operating activities. Also, the suppliers need to continuously improve their safety standards and performance with the aim of achieving zero injuries. The Group understands the environmental values and social responsibilities with suppliers by mutually communicating from time to time.

The Group expects suppliers to implement good employment measures by dealing with their employees fairly and reasonably, respecting employees' rights and providing employees with an environment free of discrimination, child labour and forced labour. The suppliers also need to adhere to transparency business processes and high standards of conduct, including avoiding conflicts of interest and prohibiting corruption and accepting bribery.

The Group's suppliers must also emphasize the efficient use of resources and strive to reduce waste. This includes efficiently using fuel and water, properly processing and disposing of waste, monitoring and managing their impacts on the environment in a responsible manner, and continuing to improve in all aspects.

5. Product responsibility

Quality is an eternal theme and the life of an enterprise. Product quality is the cornerstone to represent a brand and the core of enhancing operation value of a brand. Therefore, the Group puts high emphasis on the quality and reputation of products. The Group strictly follows the laws and regulations related to Product Quality Law and formulates comprehensive management systems in respect of quality and sales, strengthening the quality examination and sales management of products to ensure that high-quality products are offered to the customers.

Products sold to the customers by the Group must be assessed and conduct quality examination before exporting from the mines and delivering to the customers. The quantity and quality of the Company and the customers can be compared. When the differences appear to be substantial, the Group will address the problem under the Customer Complaints Guidelines for Quantity and Quality. Problem that cannot be resolved will be subject to review and arbitration by third-party authoritative organization.

The Group has an established management system with advanced production techniques and equipments, as well as dedicated and responsible staff members. During the Reporting Period, there is no material quality defect of products or recall of products sold.

6. Anti-corruption

Ethics and integrity is the cornerstone of the Group's success. The Group adopts zero-tolerance approach to bribery, extortion, fraud and money-laundering in strict compliance with Anti-Corruption Law (反腐敗法). All directors, management personnel and staff members must comply with all related national and local government laws and regulations on preventing bribery, extortion, fraud and money-laundering in their operation regions in their daily work. All employees not only have responsibility to understand and comply with above policies on preventing bribery, extortion, fraud and money-laundering, but also have obligation to report violation to the person responsible for Audit Department. Any person, who contravenes the regulations, will be subject to disciplinary sanction.

In order to strengthen the anti-corruption approach, the Company sets up an audit department dedicated to executing anti-corruption function, commencing special issues auditing and supervision processes in due course, investigating loopholes and defects rectification, and auditing legality, reasonability and stringency of respective businesses. The Group establishes and improves various internal systems to specify the anti-corruption management disciplines and conduct requirements of the Company, so that corruption can be eliminated with the help of an established system and better management approach.

Meanwhile, the Group commences anti-corruption training, laws education among the public and case analysis, so as to promote the importance of anti-corruption. The Company sets up various channels such as telephone hotlines, email and mailbox for whistleblowing. Dedicated staff members collects and sorts reported information on a regular basis as well as oversees and investigates reported matters referring to the audit department. The Company also adopts various measures to encourage staff members to proactively report acts in violation of disciplines, and strengthens the privacy protection of the whistleblower.

The Group puts more efforts on punishing acts in violation of disciplines by increasing the fines on violation. Upon verification of any acts in violation, the entire illegal proceeds will be confiscated and the violator will be fined twice the amount of its illegal proceeds (cash equivalent for gifts), and subject to administrative sanction such as demotion and removal. Serious case will be referred to judicial authorities for criminal charges.

During the Reporting Period, the Group was not aware of any corruption litigation cases against the Company or its staff members.

COMMUNITY

The long-term existence and development of an enterprise largely depends on the fulfilment of its social responsibilities, and in turn, the harmony and well-being of a society rely on the operation condition and social responsibilities of an enterprise. The Group always strives to fulfil social responsibilities, proactively engages into charitable activities and cares for the disadvantaged groups. By incorporating the above efforts into its corporate culture, the Group is able to complement its business operation. It is also committed to building up good relationship with the local communities and receives recognition from local governments from time to time.

The Group participated or organized the following charitable activities during the Reporting Period:

- In May 2016, the Group assisted in clean-up of the main river channel at Yangjiazhuang Town (楊家莊鎮) to ensure its safety during the flood season. Excavators, shovel cars and transportation vehicles were used for ten days with a cost of approximately RMB150,000.

- In July 2016, the Group cleaned up the road linking Zhijiazhuang Village (支家莊) to Fengjiazhuang Village (馮家莊). Three shovel cars were used for three days with a cost of approximately RMB50,000.

- In August 2016, Laiyuan County Aowei Mining Investments Co., Ltd. offered an endowment of RMB200,000 to local community school. The Activities for Love and Care of People in Laiyuan County Leading Group Office (淶源縣親民愛民活動領導小組辦公室) and the Laiyuan County People's Government under the Laiyuan County Communist Party Committee of the PRC (中共淶源縣委淶源縣人民政府) granted the Group the "Honorable Award for Caring Corporation for Autumn Endowments (金秋助學愛心企業榮譽稱號)" and the Annual Award for Advanced Corporation of Respecting Teachers and Valuing Education (年度尊師重教先進單位).

- In October 2016, the Group helped Zhijiazhuang Village evacuate ditches for running water with a cost of approximately RMB10,000.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

COMPOSITION OF DIRECTORS

The Board consists of six executive Directors and three independent non-executive Directors, one third of which are independent non-executive Directors as of the date of this report.

BIOGRAPHIES OF EXECUTIVE DIRECTORS

Mr. Li Yanjun (**李豔軍**), aged 52, is our executive Director and the chairman of the Board, and is mainly responsible for the overall business plan, strategies and major decisions of our Group. Mr. Li is the founder of the Group, and through the positions he held at Aowei Group, Aoyu Steel and the Group, Mr. Li has over 20 years of experience in the iron ore mining, steel industry and corporate management. Mr. Li was also a member of the 12th National People's Congress (第十二屆全國人大). Mr. Li and Mr. Li Ziwei are parent-child relationship.

Mr. Leung Hongying Li Ziwei (**李子威**), aged 29, 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 eight 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 is also the director of Hengshi Development International Limited. Mr. Li and Mr. Li Yanjun are parent-child relationship.

Mr. Huang Kai (**黃凱**), aged 43, is our executive Director and was appointed as the chief executive officer of the Company on 30 March 2016. He is responsible for the Group's overall business management and daily operation of medical business. 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. As the Group's business transformed, he began to participate in the development of medical business in 2015. 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.

Sun Jianhua (**孫建華**), aged 34, is our executive Director and the chief financial officer. He is responsible for our Group's accounting and financial management. He joined the Group in February 2012 and was appointed as executive director of the Company in June 2013. 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. Li Jinsheng (**李金生**), aged 54, is our executive Director. He is responsible for Aowei Mining's overall business management and daily operation. From January 2005 to February 2006, Mr. Li served as the general manager of Laiyuan Xinxin Mining, an indirectly wholly owned subsidiary of the Company. From February 2006 to March 2012, Mr. Li was the general manager of Aoyu Steel. From April 2012 to March 2016, Mr. Li served as the deputy general manager of Aowei Group and was responsible for assisting the general manager in the business operation and development of the company. Mr. Li was appointed as an executive director of the Company on 30 March 2016, and was also appointed as a director and the general manager of Aowei Mining, an indirect wholly-owned subsidiary of the Company, and was responsible for its business management and daily operations.

Mr. Tu Quanping (**塗全平**), aged 47, 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. 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ge Xinjian (**葛新建**), aged 57, is our independent non-executive Director.

Mr. Ge has more than 30 years of experience in processing research, design and technical management. He serves as the 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). 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 55, is our independent non-executive Director.

Mr. Meng has been the Chairman of the Board of Guojie Investments Holding Ltd. (國傑投資控股有限公司) since October 2014. 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 & MHKIoD*, aged 41, is our independent non-executive Director.

Mr. Kong has over 19 years of experience in auditing, corporate finance, investor relations and corporate governance. Mr. Kong currently holds various positions in the following companies listed on the main board of the Stock Exchange:

Name of listed company	Stock code	Position held	Period
CAA Resources Limited	02112	Independent non-executive director	April 2013 – Present
China Vanadium Titano – Magnetite Mining Co., Ltd.	00893	Company secretary and authorised representative	September 2009 – Present
Huazhang Technology Holding Limited	01673	Independent non-executive director	May 2013 – Present

Mr. Kong was the executive director and chief financial officer of China Vanadium Titano-Magnetite Mining Co., Ltd. from October 2013 to May 2015 and from May 2008 to May 2015, respectively. Mr. Kong worked at KPMG from October 1999 and was a senior manager when he left in December 2007. Prior to joining KPMG, Mr. Kong worked as a finance trainee in Hutchison Telecommunications (Hong Kong) Limited from June 1997 to March 1998, and worked as an associate in PricewaterhouseCoopers from March 1998 to October 1999.

Mr. Kong 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 silver, gold and bronze certificates of merit in continuing professional development in 2013, 2014 and 2015 respectively from the HKIoD. Mr. Kong graduated from the Chinese University of Hong Kong with a bachelor's degree in business administration in May 1997.

SENIOR MANAGEMENT

Mr. Gao Changquan (郜常泉), aged 46, is the deputy general manager of Aowei Mining. He is responsible for the administrative affairs and finance and accounting 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, and was appointed as the deputy general manager of Aowei Mining in March 2016. 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 Shaoshun (**李紹順**), aged 46, is the director and deputy general manager of Aowei Mining and is responsible of the production management, environment, health and safety of Aowei Mining. Mr. Li has over 12 years' experience in industrial marketing and management from April 2004 to April 2012. Mr. Li was the dispatching manager and general manager of the department of production and technology of Aoyu Steel. He joined the Group in 2012 and was the deputy general manager of Jingyuancheng Mining, during which he was responsible for production, operation and management from April 2012 to March 2016. He has been the deputy general manager of Aowei Mining since March 2016. Mr. Li graduated from Anshan Institute of Iron & Steel Technology with an undergraduate diploma and a bachelor's degree in iron and steel metallurgy in July 1992.

Mr. Li Dongfeng (**李東風**), aged 45, 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 Company Limited (淶源縣匯源礦業有限公司). From July 2007 to August 2010, he served as the general manager of Laiyuan County Xinrui Mining Company Limited (淶源縣鑫瑞礦業有限公司) ("Xinrui Mining"). Mr. Li joined our Group in August 2010 and since then has served as a director and the general manager of Jiheng Mining.

Mr. Jin Jiangsheng (**金江生**), aged 50, is the general manager of Jingyuancheng Mining and Xinxin Mining. He is responsible for the general management and daily operation of Jingyuancheng Mining and Xinxin Mining. Mr. Jin has over 10 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, and was also appointed as the general manager of Xinxin Mining in March 2016. 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.

Save as disclosed above, the directors and senior management have no other positions as directors in the Listing Company.

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 32, the joint company secretary of our Company. From April 2011 to June 2013, Mr. Meng has been an investment manager at the strategic investment department of Aowei Group. He 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**), 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 Ziheng 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 British Virgin Islands and continued in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Hengshi Mining Investments Limited ("the Company") and its subsidiaries ("the Group") set out on pages 78 to 144, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Assessment of impairment/reversal of impairment of mining assets

Refer to notes 2(k)(ii), 3(a)(iii) and 17 to the consolidated financial statements on pages 92, 101 and 119.

The Key Audit Matter	How the matter was addressed in our audit
The Group's mining assets are located in three mining areas, each of which is owned by one of the Group's subsidiaries. Each subsidiary was considered to be a separate cash generating unit ("CGU") as at 31 December 2016. Mining assets represented 69.6% of the Group's non-financial assets as at 31 December 2016. As a result of continuing weaker iron ore price forecasts and the deferral of the Group's mine development plans in the second half of 2015, the Group recognised impairment losses in respect of its mining assets of RMB393.6 million for the year ended 31 December 2015. As at 31 December 2016 management has taken into account both external and internal sources of information in assessing whether there is any indication that a CGU may be impaired. Any change in the assumptions adopted in the prior year's impairment assessment could lead to further impairment or a reversal of previous impairment for the current and future years. Management determines the recoverable amount of each CGU by using discounted cash flow techniques when indicators of impairment are identified. The preparation of discounted cash flow forecasts involves the exercise of significant management judgement in the selection of assumptions, in particular in estimating future iron ore concentrate prices and the discount rates applied as well as internal assumptions relating to future production, future sales levels and future operating costs. We identified the assessment of impairment/reversal of impairment of mining assets as a key audit matter because the assessment of the recoverable amount of amount of a CGU involves significant management judgement in the selection of the assumptions adopted in the discounted cash flow forecasts which could be subject to management bias.	Our procedures to assess the impairment/reversal of impairment of mining assets included the following: • evaluating the design and implementation of key internal controls over the valuations of the Group's CGUs on which the related estimated recoverable amounts are based; • assessing the allocation of assets and liabilities by management to the CGUs and the methodology applied by management in its impairment assessments with reference to the requirements of the prevailing accounting standards; • challenging the Group's key assumptions and estimates used to determine the recoverable amounts of the CGUs, including those relating to future sales, future operating costs, future capital expenditure and the discount rates applied. This included involving our internal valuation specialists to compare these key assumptions and estimates with external benchmarks (including future commodity prices and discount rates for similar companies in the same industry) and to consider the key assumptions and estimates based on their knowledge of the Group and the industry in which it operates; • comparing the key assumptions and estimates included in the discounted cash flow forecasts prepared in the prior year with the current year's performance of the CGUs to assess the reliability management's discounted cash flow forecasts and making enquiries of management as to the reasons for any significant variances identified; • performing sensitivity analyses of the key assumptions and estimates adopted in the discounted cash flow forecasts and assessing the impact of changes in the key assumptions and estimates and whether there were any indicators of management bias; and • assessing the disclosures in the consolidated financial statements in respect of management's impairment assessments with reference to the requirements of the prevailing accounting standards.

Accounting for the acquisition of Xinan Investments Limited

Refer to notes 2(d) and 5 to the consolidated financial statements on pages 85 and 106.

The Key Audit Matter

Pursuant to a Sale and Purchase Agreement entered into by the Company with the vendor dated 4 July 2016, the Company completed the acquisition of 100% of the issued share capital of Xinan Investments Limited (the "Acquisition") on 13 July 2016.

Xinan Investments Limited and its subsidiary (collectively, the "Target Group") are principally engaged in hospital management, the establishment of specialist clinics, the supply of medical consumables and the provision of nursing services.

The Group engaged an independent external valuation expert to perform a valuation of the fair value of the identifiable assets acquired and liabilities assumed in this acquisition.

We identified the accounting for the acquisition of Xinan Investments Limited as a key audit matter because of the judgements required in the valuation of the identifiable assets and liabilities acquired, in particular the valuation of previously unrecognised intangible assets.

How the matter was addressed in our audit

Our procedures to assess the accounting for the acquisition of Xinan Investments Limited included the following:

- evaluating the experience, competence, objectivity and independence of the independent external valuation expert engaged management to value the acquired assets and assumed liabilities;

- with the assistance of our internal valuation specialists, assessing the methodology used by the independent external valuation expert in the estimation of fair value of each individual asset acquired and liability assumed with reference to the requirements of the prevailing accounting standards;

- challenging the key assumptions adopted in the assessment of the fair value of the identifiable assets acquired and liabilities assumed by discussing with management and the independent external valuation expert and corroborating management's explanations by comparing the key assumptions with external benchmarks and our knowledge of the industry in which the Target Group operates;

- comparing the discount rates applied with those of comparable companies and external market data;

- assessing the disclosures in respect of the Acquisition and related judgements in the consolidated financial statements with reference to the requirements of the prevailing accounting standards.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chu Man Wai.

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

16 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2016
(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Revenue	4	**757,137**	753,663
Cost of sales		**(488,291)**	(487,343)
Gross profit		**268,846**	266,320
Distribution costs		**(13,144)**	(19,989)
Administrative expenses		**(97,240)**	(115,183)
Impairment losses	6(c)	**–**	(393,637)
Profit/(loss) from operations		**158,462**	(262,489)
Finance income	6(a)	**4,065**	3,466
Finance costs	6(a)	**(43,577)**	(27,248)
Net finance costs		**(39,512)**	(23,782)
Profit/(loss) before taxation	6	**118,950**	(286,271)
Income tax	7	**(33,284)**	51,190
Profit/(loss) for the year		**85,666**	(235,081)
Other comprehensive income for the year			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of group of companies outside of Mainland China	10	**1,395**	106
Total comprehensive income for the year		**87,061**	(234,975)
Profit/(loss) attributable to equity shareholders of the Company		**85,666**	(235,081)
Total comprehensive income attributable to equity shareholders of the Company		**87,061**	(234,975)
Earnings/(loss) per share			
Basic and diluted (RMB)	11	**0.05**	(0.16)

The notes on pages 84 to 144 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 31(b).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2016
(Expressed in Renminbi)

	Note	31 December 2016 RMB'000	31 December 2015 RMB'000
Non-current assets			
Property, plant and equipment, net	12	838,579	724,458
Construction in progress	13	5,374	58,981
Lease prepayments	14	127,035	143,006
Intangible assets	15	753,758	602,673
Goodwill	16	73,410	–
Long-term receivables	19	53,960	40,960
Prepayments	20	3,576	3,382
Deferred tax assets	28(b)	122,163	107,316
Total non-current assets		1,977,855	1,680,776
Current assets			
Inventories	21	106,147	115,052
Trade and other receivables	22	123,688	209,520
Other financial assets	23	48,000	–
Restricted deposits	24	298,048	–
Cash and cash equivalents	25	46,577	59,495
Total current assets		622,460	384,067
Current liabilities			
Short-term borrowings and current portion of long-term borrowings	26	310,000	200,000
Trade and other payables	27	180,410	130,815
Current taxation	28(a)	27,994	8,868
Current portion of long-term payables	29	45,501	5,786
Current portion of accrued reclamation obligations	30	5,720	6,399
Total current liabilities		569,625	351,868
Net current assets		52,835	32,199
Total assets less current liabilities		2,030,690	1,712,975

The notes on pages 84 to 144 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2016
(Expressed in Renminbi)

	Note	**31 December 2016 RMB'000**	31 December 2015 RMB'000
Non-current liabilities			
Long-term payables, less current portion	*29*	**197,707**	229,885
Accrued reclamation obligations, less current portion	*30*	**51,606**	49,086
Deferred tax liabilities	*28(b)*	**50,090**	–
Total non-current liabilities		**299,403**	278,971
NET ASSETS		**1,731,287**	1,434,004
CAPITAL AND RESERVES			
Share capital	*31(c)*	**131**	120
Reserves		**1,731,156**	1,433,884
Total equity		**1,731,287**	1,434,004

Approved and authorised for issue by the board of directors on 16 March 2017.

Li Yanjun
Chairman and Executive Director

Leung Hongying Li Ziwei
Vice Chairman and Executive Director

The notes on pages 84 to 144 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016
(Expressed in Renminbi)

		Attributable to equity shareholders of the Company							
	Note	Share capital RMB'000 *(note 31(c))*	Share premium RMB'000 *(note 31(d))*	Statutory surplus reserve RMB'000 *(note 31(d))*	Specific reserve RMB'000 *(note 31(d))*	Exchange reserve RMB'000 *(note 31(d))*	Other reserve RMB'000 *(note 31(d))*	Retained profits RMB'000	Total equity RMB'000
Balance at 1 January 2015		120	928,309	84,556	66,613	(1,953)	(126,229)	705,845	1,657,261
Changes in equity for 2015:									
Loss for the year		–	–	–	–	–	–	(235,081)	(235,081)
Other comprehensive income		–	–	–	–	106	–	–	106
Total comprehensive income		–	–	–	–	106	–	(235,081)	(234,975)
Transfer to specific reserve, net of utilisation		–	–	–	(1,070)	–	–	1,070	–
Reversal of deferred tax liabilities arising from undistributed profits of subsidiaries in Mainland China	*28(b)*	–	–	–	–	–	–	11,718	11,718
Balance at 31 December 2015 and 1 January 2016		120	928,309	84,556	65,543	(1,847)	(126,229)	483,552	1,434,004
Changes in equity for 2016:									
Profit for the year		–	–	–	–	–	–	85,666	85,666
Other comprehensive income		–	–	–	–	1,395	–	–	1,395
Total comprehensive income		–	–	–	–	1,395	–	85,666	87,061
Shares issued for acquisition of business		11	214,331	–	–	–	–	–	214,342
Transfer to specific reserve, net of utilisation		–	–	–	(5,620)	–	–	5,620	–
Recognition of deferred tax liabilities arising from undistributed profits of subsidiaries in Mainland China	*28(b)*	–	–	–	–	–	–	(4,120)	(4,120)
Balance at 31 December 2016		131	1,142,640	84,556	59,923	(452)	(126,229)	570,718	1,731,287

The notes on pages 84 to 144 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2016
(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Cash flows from operating activities			
Profit/(loss) before taxation		**118,950**	(286,271)
Adjustments for:			
Depreciation and amortisation	*6(c)*	**118,342**	111,676
Interest income	*6(a)*	**(4,065)**	(3,466)
Interest expenses	*6(a)*	**43,296**	27,218
Net losses on disposal of property, plant and equipment	*6(c)*	**–**	23,045
Impairment losses	*6(c)*	**–**	393,637
Changes in working capital:			
Decrease in inventories		**8,905**	22,430
Decrease/(increase) in trade and other receivables		**82,393**	(66,620)
Increase/(decrease) in trade and other payables		**31,150**	(43,302)
Cash generated from operations		**398,971**	178,347
Income tax paid	*28(a)*	**(29,785)**	(54,682)
Net cash generated from operating activities		**369,186**	123,665
Investing activities			
Payment for purchase of property, plant and equipment and construction in progress		**(160,563)**	(190,739)
Payment for purchase of lease prepayments		**–**	(4,044)
Payment for purchase of other assets		**(5,685)**	(25,515)
Proceeds from disposal of property, plant and equipment		**–**	711
Payment for purchase of other financial assets		**(48,000)**	–
Placement of restricted deposits for investing purpose		**(257,018)**	–
Interest received		**4,065**	3,466
Net cash received from acquisition of business	*5(a)*	**682**	–
Net cash used in investing activities		**(466,519)**	(216,121)

The notes on pages 84 to 144 form part of these financial statements.

for the year ended 31 December 2016
(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Financing activities			
Proceeds from borrowings		500,000	100,000
Repayment of borrowings		(390,000)	(100,000)
Interest paid		(26,915)	(15,586)
Net cash generated from/(used in) financing activities		83,085	(15,586)
Net decrease in cash and cash equivalents		(14,248)	(108,042)
Cash and cash equivalents at 1 January		59,495	167,431
Effect of foreign exchange rate changes		1,330	106
Cash and cash equivalents at 31 December	*25*	46,577	59,495

The notes on pages 84 to 144 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 CORPORATION INFORMATION

Hengshi Mining Investments Limited (the "Company") was incorporated in the British Virgin Islands 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 sale of iron ore products and the provision of hospital management service in the People's Republic of China ("PRC").

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 Company's shares were listed on the Stock Exchange on 28 November 2013.

On 13 July 2016, the Company acquired the 100% issued share capital of Xinan Investments Limited with details set out in note 5.

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 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 of Hong Kong Limited (the "Listing Rules"). Significant accounting policies adopted by the Group are disclosed.

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. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the 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.

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) Changes in accounting policies

The IASB has issued the following amendments to IFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

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

(d) Basis of consolidation

(i) Business combinations involving entities under common control

A business combination involving entities 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 acquired and liabilities assumed are measured based on their carrying amounts in the consolidated financial statements of the ultimate controlling party at the combination date. The difference between the carrying amount of the net assets acquired and the consideration paid for the combination (or the total par value of shares issued) is adjusted to equity. Any costs directly attributable to the combination are recognised in profit or loss when incurred. The combination date is the date on which one combining entity obtains control of 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. Acquisition-related costs are expensed when incurred. The acquiree's identifiable assets, liabilities and contingent liabilities, if the recognition criteria are met, are recognised by the Group at their acquisition-date fair value. The acquisition date is the date on which the acquirer obtains control of the acquiree.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Basis of consolidation *(continued)*

(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.

Non-controlling interests are presented in the consolidated statement of financial position 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 profit or loss and other 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 statement of financial position in accordance with notes 2(n) or (o) 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 statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(k)(i)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Other investments

Investments are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets.

At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in debt securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 2(k)(i)). Interest income from debt securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in note 2(v)(ii). Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in profit or loss.

When the investments are derecognised or impaired (see note 2(k)(i)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(f) Property, plant and equipment

Property, plant and equipment, which consists of buildings and plants, machinery and equipment, motor vehicles, office equipment and mine properties (including capitalised stripping costs), are initially stated at cost less accumulated depreciation and impairment losses (see note 2(k)(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 (see note 2(x)) 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.

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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Property, plant and equipment *(continued)*

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, other than mine properties, 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 of the relevant ore body 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.

(g) Construction in progress

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(k)(ii)). Cost comprises cost of materials, direct labour and an appropriate proportion of production overheads and borrowing costs (see note 2(x)).

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.

(h) Capitalised stripping costs

The process of removing overburden and other mine waste materials to access mineral deposits is referred to as stripping. In open-pit mining, stripping costs are accounted for separately for each component of an ore body unless the stripping activity provides improved access to the whole of the ore body. A component is a specific section within an ore body that is made more accessible by the stripping activity. The identification of components is dependent on the mine plan.

There are two types of stripping activity:

- Development stripping is the initial overburden removal during the development phase to obtain access to a mineral deposit that will be commercially produced; and

- Production stripping is the inter-burden removal during the normal course of production activity.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Capitalised stripping costs *(continued)*

Development stripping costs are capitalised as a stripping activity asset (in construction in progress) and forming part of the cost of constructing the mine, when:

- It is probable that future economic benefits associated with the asset will flow to the Group; and

- The costs can be measured reliably.

Capitalisation of development stripping costs ceases and these costs are transferred to mine properties (in property, plant and equipment) when the ore body or the component of an ore body is ready for its intended use.

Production stripping can give rise to two benefits being the extraction of ore in the current period and improved access to the ore body or the component of an ore body in future periods. To the extent that the benefit is the extraction of ore, the stripping costs are recognised as cost of inventories. To the extent the benefit is improved access to the ore body or the component of an ore body in future periods, the stripping costs are capitalised as mine properties, if the following criteria are met:

- It is probable that the future economic benefits (improved access to the ore body or the component of an ore body) will flow to the Group;

- The ore body or the component of an ore body for which access has been improved can be identified; and

- The costs relating to the stripping activity can be measured reliably.

Production stripping costs are allocated between the inventories produced and the mine properties capitalised using a life-of-component waste to ore stripping ratio. When the current stripping ratio is greater than the life-of-component stripping ratio, a portion of the stripping costs is capitalised to the existing mine properties.

(i) Goodwill and other intangible assets

(i) Goodwill

Goodwill represents the excess of:

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(k)(ii)).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Goodwill and other intangible assets *(continued)*

(i) Goodwill *(continued)*

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(ii) Mining rights

Mining rights are stated at cost less accumulated amortisation and impairment losses (see note 2(k)(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.

(iii) Exploration and evaluation assets

Exploration and evaluation assets are stated at cost less impairment losses (see note 2(k)(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.

(iv) Hospital management right

The acquired hospital management right is stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(k)(ii)).

Amortisation of the hospital management right is charged to profit or loss on a straight-line basis over its estimated useful lives of 30 years.

Both the period and method of amortisation are reviewed annually.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

(k) 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Impairment of assets *(continued)*

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

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

- For investments in subsidiaries (see note 2(d)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(k)(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(k)(ii).

- For trade and other current receivables and other financial assets 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.

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 the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment (including capitalised mine properties);

- construction in progress;

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Impairment of assets *(continued)*

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

- lease prepayments;
- intangible assets;
- goodwill;
- investments in subsidiaries; and
- other non-current assets (excluding receivables)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount
  The recoverable amount of an asset is the greater of its fair value less costs of disposal ("FVLCD") and value in use ("VIU"). 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, or "CGU").

- Recognition of impairment losses
  An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the CGU to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or group of units) and then, to reduce the carrying amount of the other assets in the 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 FVLCD (if measurable) or VIU (if determinable).

- Reversals of impairment losses
  In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

  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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Impairment of assets *(continued)*

(iii) Interim financial reporting and impairment

Under the Listing Rules, 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(k)(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.

(l) Inventories

Inventories, including weakly mineralised wall rock, iron ores, 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.

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.

(m) 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(k)(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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) 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.

(o) 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.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on 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.

(q) 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.

(r) 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Income tax *(continued)*

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, 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 the end of each reporting period 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company 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.

(t) Levies

A levy is not recognised until the obligating event specified in relevant legislation occurs, even if there is no realistic opportunity to avoid the obligation.

(u) 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 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 as mine properties in property, plant and equipment. 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) 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 iron ore products

Revenue associated with the sale of iron ores, preliminary concentrates and iron ore concentrates is recognised when the customer has accepted the goods and the related risks and rewards of ownership. 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.

(iii) Service income

Service income associated with hospital management is recognised when the related services are rendered and when it is probable that the economic benefits from the service rendered will flow to the Group and such benefit could be reliably measured.

(w) Translation of foreign currencies

The presentation currency of the Group is Renminbi ("RMB"). The functional currency of the Company and Hengshi Development International Limited is Hong Kong dollars ("HKD") and the functional currency of other group entities are Renminbi. 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. Statement of financial position 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(x) 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.

(y) Related parties

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

(a) has control or joint control over the Group;

(b) has significant influence over the Group; or

(c) 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:

(a) 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).

(b) 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).

(c) Both entities are joint ventures of the same third party.

(d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(e) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(f) The entity is controlled or jointly controlled by a person identified in (i).

(g) A person identified in (i)(a) 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).

(h) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or the Group's parent.

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(z) 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.

3 ACCOUNTING JUDGEMENT AND ESTIMATES

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

In the process of applying the Group's accounting policies, management has made the following accounting judgements:

(i) Iron ore 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 deposits. 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 and costs of mining structures and mining rights. The cost of mining structures and mining rights are depreciated and amortised based on the units of iron ore reserves consumed.

(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.

3 ACCOUNTING JUDGEMENT AND ESTIMATES *(continued)*

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

(iii) Impairment of assets

In relation to the goodwill, the CGU to which goodwill has been allocated is tested for impairment annually whether or not there is any indicator of impairment. Management prepares discounted future cash flow to assess the differences between the carrying amount and VIU. In case the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU.

The Group reviews the carrying amounts of the assets at the end of each reporting period 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 VIU 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, a provision for impairment is made and an impairment loss is recognised in profit or loss when there is objective evidence (e.g. probability of insolvency or significant financial difficulties of debtors) that the Group will not be able to collect all of the amounts due under the original terms of invoices. Management uses judgement in determining the probability of insolvency or significant financial difficulties of debtors.

Notwithstanding that the Group has used all available information to make this estimation, inherent uncertainty exists and actual write-offs may be higher or lower than the amount estimated. An increase or decrease in the above impairment loss would affect the net profit in future years.

(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.

3 ACCOUNTING JUDGEMENT AND ESTIMATES *(continued)*

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

(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 end of the reporting period. In determining the carrying amounts of deferred tax 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 inventories 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 inventories, while the latter are capitalised as mine properties, where certain criteria are met (see note 2(h)). Significant judgement is required to distinguish between the production stripping that related to the extraction of inventories and what relates to the creation of mine properties.

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.

Judgement is also required to identify a suitable production measure to be used to allocation production stripping costs between inventories 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 ores 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.

3 ACCOUNTING JUDGEMENT AND ESTIMATES *(continued)*

(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 each reporting period are required in relation to the Group's accounting policies on "impairment of assets", "obligations for reclamation" and "recognition of deferred tax assets". Information about the assumptions and their risk factors are set out in notes 3(a)(iii), (iv) and (v).

4 REVENUE AND OPERATING SEGMENTS

(a) Revenue

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

	2016 RMB'000	2015 RMB'000
Mining Segment		
Iron ore concentrates	**734,485**	695,345
Preliminary concentrates	**21,588**	46,479
Iron ores	**1,048**	11,660
Others	**4**	179
	757,125	753,663
Medical Segment		
Hospital management service	**12**	–
	757,137	753,663

During the year ended 31 December 2016, there were three customers with whom transactions have exceeded 10% of the Group's revenue (2015: three customers) and revenue from sales of iron ore concentrates to these customers amounted to RMB603,936,000 (2015: RMB635,840,000). Details of the concentration of credit risk arising from the Group's customers are set out in note 32(a).

4 REVENUE AND OPERATING SEGMENTS *(continued)*

(b) Operating Segments

The Group manages its businesses based on its business line, which are divided into mining, processing and sale of iron ore products and the provision of hospital management service. Before July 2016, the Group only had one business line, the mining, processing and sale of iron ore products. Operation of hospital management business was acquired by the Group in July 2016 (for detailed information, please refer to note 5). Therefore, no segment reporting was presented in 2015.

In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker ("CODM") for the purposes of resources allocation and performance assessment, the Group has identified and presented the following two reportable segments in accordance with IFRS 8. No operating segments have been aggregated to form the following reportable segments:

- the mining, processing and sale of iron ore products; and

- the provision of hospital management, establishment of specialist clinics supply of medical consumables and nursing service.

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's CODM monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets and liabilities include all non-current assets and liabilities and current assets and liabilities with the exception of unallocated head office and corporate assets and liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation of assets attributable to those segments. Head office and corporate expenses are not allocated to individual segments.

Segment profit represents the profit after taxation generated by individual segments.

Segment assets and liabilities of the Group are not reported to the Group's CODM regularly. As a result, reportable segment assets and liabilities have not been presented in the financial statements.

4 REVENUE AND OPERATING SEGMENTS *(continued)*

(b) Operating Segments *(continued)*

(i) Segment results, assets and liabilities *(continued)*

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the year ended 31 December 2016 is set out below.

	Year ended 31 December 2016		
	Mining, processing and sale of iron ore segment RMB'000	Provision of hospital management, establishment of specialist clinics supply of consumables and nursing service RMB'000	Total RMB'000
Reportable segment revenue	757,125	12	757,137
Cost of sales	(485,174)	(3,117)	(488,291)
Reportable segment gross profit	271,951	(3,105)	268,846
Distribution costs	(13,144)	–	(13,144)
Administrative expenses	(92,380)	(1,129)	(93,509)
Net finance costs	(39,292)	–	(39,292)
Reportable segment profit/(loss) before taxation	127,135	(4,234)	122,901
Income tax	(34,037)	779	(33,258)
Reportable segment profit/(loss)	93,098	(3,455)	89,643

4 REVENUE AND OPERATING SEGMENTS *(continued)*

(b) Operating Segments *(continued)*

(ii) Reconciliations of reportable segment revenue and profit or loss:

	2016 RMB'000
Revenue	
Reportable segment revenue	757,137
Consolidated revenue *(note 4(a))*	757,137
Profit	
Reportable segment profit	89,643
Unallocated head office and corporate expense	(3,977)
Consolidated profit	85,666

(iii) All of the Group's operations are located in the PRC, therefore no geographical segment reporting is presented.

5 ACQUISITION OF BUSINESS

On 4 July 2016, the Group entered into a Sale and Purchase Agreement to acquire the 100% issued share capital of Xinan Investments Limited from Jovial Link Investments Limited ("Jovial Link") at a consideration of approximately RMB213,000,000. The consideration was satisfied by the issuance of 127,486,892 shares (HK$1.95 per share) of the Company on 13 July 2016 (the "Acquisition Date"). The consideration was HK$248,600,000 in total, equivalent to RMB214,342,000 based on the Acquisition Date's exchange rate. The Company indirectly holds 100% equity interest of Baoding Xinan Medical Management Consulting Company Limited ("Baoding Xinan"), which is principally engaged in the provision of hospital management service in the PRC. As at the date of the signing of the Sale and Purchase Agreement, Baoding Xinan has entered into the Agreement on Management of Rongcheng County Hospital of Traditional Chinese Medicine with the Healthcare and Family Planning Bureau of Rongcheng County, Baoding, Hebei Province relating to the management of the Rongcheng County Hospital of Traditional Chinese Medicine (hereafter referred to as "Rongcheng Hospital") and the Management Agreement with Rongcheng Hospital relating to the management. Both agreements are collectively referred to as the "Hospital Management Agreements" hereafter.

5 ACQUISITION OF BUSINESS *(continued)*

(a) Identifiable assets acquired and liabilities assumed at the Acquisition Date:

	Note	Acquiree RMB'000
Intangible assets	*15*	187,000
Cash and cash equivalents		682
Deferred tax liabilities	*28(b)*	(46,750)
Net identifiable assets		140,932

(b) Goodwill:

Goodwill was recognised as a result of acquisition as follows:

	Note	RMB'000
Total consideration		214,342
Less: fair value of identifiable net assets	*5(a)*	140,932
Goodwill	*16*	73,410

At the date of the acquisition, goodwill of RMB73,410,000 was determined provisionally based on the acquiree's provisional fair value of net identifiable assets acquired.

6 PROFIT/(LOSS) BEFORE TAXATION

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

(a) Net finance costs:

	2016 RMB'000	2015 RMB'000
Interest income	(4,065)	(3,466)
Finance income	(4,065)	(3,466)
Interest on interest-bearing borrowings	27,355	15,586
Unwinding of interest on		
– long-term payables	13,222	9,287
– accrued reclamation obligations *(note 30)*	2,719	2,345
Foreign exchange loss, net	281	30
Finance costs	43,577	27,248
Net finance costs	39,512	23,782

During the year ended 31 December 2016, no borrowing costs were capitalised in relation to construction in progress (2015: RMB nil).

(b) Staff costs:

	2016 RMB'000	2015 RMB'000
Salaries, wages and other benefits	65,523	77,405
Retirement scheme contributions	4,820	7,673
	70,343	85,078

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 bases determined by referencing to the prevailing average salary of Hebei Province and as agreed by 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.

6 PROFIT/(LOSS) BEFORE TAXATION *(continued)*

(c) Other items:

	2016 RMB'000	2015 RMB'000
Cost of inventories *(note (i))*	**485,174**	487,343
Depreciation and amortisation	**118,342**	111,676
Operating lease charges	**3,589**	4,003
Auditor's remuneration		
– audit services	**3,000**	3,180
– non audit services	**680**	–
Allowance for doubtful debts *(note 22)*	**286**	–
Net losses on disposal of property, plant and equipment	**–**	23,045
Impairment losses *(note 17)*	**–**	393,637

Note:

(i) During the year ended 31 December 2016, cost of inventories includes RMB131,630,000 (2015: RMB153,262,000) relating to staff costs, depreciation and amortisation expenses which are also included in the respective amounts disclosed separately above for each of these types of expenses.

During the year ended 31 December 2016, production stripping costs recognised in profit or loss as part of cost of inventories amounted to RMB227,215,000 (2015: RMB213,674,000).

7 INCOME TAX

(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	2016 RMB'000	2015 RMB'000
Current tax		
Provision for PRC enterprise income tax *(note 28(a))*	**48,911**	44,711
Deferred tax		
Origination and reversal of temporary differences *(note 28(b))*	**(15,627)**	(95,901)
	33,284	(51,190)

7 INCOME TAX *(continued)*

(b) Reconciliation between tax expense/(credit) and accounting profit/(loss) at applicable tax rate:

	2016 RMB'000	2015 RMB'000
Profit/(loss) before taxation	**118,950**	(286,271)
Notional tax on profit/(loss) before taxation, calculated at tax rate of 25% *(note (i))*	**29,738**	(71,568)
Differential tax rates on subsidiaries' income *(note (iii))*	**(3,436)**	(2,482)
Tax effect of non-deductible expenses	**586**	2,439
Tax effect of unused tax losses not recognised *(note 28(c))*	**6,396**	20,421
Actual tax expense/(credit)	**33,284**	(51,190)

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 the 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, interests receivable by non-PRC-resident corporate investors from PRC-resident enterprises are subject to withholding income tax at a rate of 7%.

(iv) 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.

8 DIRECTORS' REMUNERATION

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	2016 Total RMB'000
Executive directors					
Mr. Li Yanjun *(chairman)*	–	1,284	–	–	1,284
Mr. Leung Hongying Li Ziwei *(vice chairman)*	–	857	–	15	872
Mr. Xia Guoan*	–	133	–	–	133
Mr. Li Jinsheng#	–	538	–	6	544
Mr. Sun Jianhua	–	188	–	28	216
Mr. Huang Kai	–	327	–	–	327
Mr. Tu Quanping	–	542	–	6	548
Independent non-executive directors					
Mr. Ge Xinjian	103	–	–	–	103
Mr. Meng Likun	103	–	–	–	103
Mr. Kong Chi Mo	154	–	–	–	154
	360	3,869	–	55	4,284

* Mr. Xia Guoan was resigned on 30 March 2016.

\# Mr. Li Jinsheng was appointed as an executive director of the Company on 30 March 2016.

8 DIRECTORS' REMUNERATION *(continued)*

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	2015 Total RMB'000
Executive directors					
Mr. Li Yanjun *(chairman)*	–	1,449	–	–	1,449
Mr. Leung Hongying Li Ziwei *(vice chairman)*	–	960	–	11	971
Mr. Xia Guoan	–	605	–	–	605
Mr. Sun Jianhua	–	185	–	12	197
Mr. Huang Kai	–	365	–	–	365
Mr. Tu Quanping	–	509	–	16	525
Independent non-executive directors					
Mr. Ge Xinjian	97	–	–	–	97
Mr. Meng Likun	97	–	–	–	97
Mr. Kong Chi Mo	145	–	–	–	145
	339	4,073	–	39	4,451

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2015: two) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other two (2015: three) individuals are as follows:

	2016 RMB'000	2015 RMB'000
Salaries and other emoluments	**1,270**	1,874
Retirement scheme contributions	**13**	46
	1,283	1,920

The emoluments of the two (2015: three) individuals with the highest emoluments are within the following bands:

	2016 Number of Individuals	2015 Number of Individuals
Nil to HKD1,000,000	**2**	3

10 OTHER COMPREHENSIVE INCOME

The component of other comprehensive income does not have any significant tax effect for the years presented.

11 EARNINGS/(LOSS) 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 2016 of RMB85,666,000 (2015: loss of RMB235,081,000) and the weighted average number of shares in issue during the year ended 31 December 2016 of 1,571,586,000 shares (2015: 1,507,843,000 shares).

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

12 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 2015	326,693	300,848	28,276	4,820	95,280	755,917
Additions	30,347	11,246	3,734	17	5,706	51,050
Disposals	(12,880)	(17,483)	(1,054)	–	–	(31,417)
Transferred from construction in progress *(note 13)*	27,795	12,141	–	–	268,330	308,266
At 31 December 2015	371,955	306,752	30,956	4,837	369,316	1,083,816
At 1 January 2016	**371,955**	**306,752**	**30,956**	**4,837**	**369,316**	**1,083,816**
Additions	**–**	**362**	**515**	**27**	**–**	**904**
Transferred from construction in progress *(note 13)*	**131,825**	**46,988**	**–**	**860**	**–**	**179,673**
At 31 December 2016	**503,780**	**354,102**	**31,471**	**5,724**	**369,316**	**1,264,393**
Accumulated depreciation and impairment losses:						
At 1 January 2015	(25,409)	(60,004)	(14,934)	(3,513)	(14,535)	(118,395)
Charge for the year	(18,126)	(27,804)	(4,551)	(575)	(13,184)	(64,240)
Impairment losses *(note 17)*	(60,701)	(42,243)	(1,566)	(104)	(79,770)	(184,384)
Written back on disposals	1,862	5,385	414	–	–	7,661
At 31 December 2015	(102,374)	(124,666)	(20,637)	(4,192)	(107,489)	(359,358)
At 1 January 2016	**(102,374)**	**(124,666)**	**(20,637)**	**(4,192)**	**(107,489)**	**(359,358)**
Charge for the year	**(16,835)**	**(22,471)**	**(3,493)**	**(284)**	**(23,373)**	**(66,456)**
At 31 December 2016	**(119,209)**	**(147,137)**	**(24,130)**	**(4,476)**	**(130,862)**	**(425,814)**
Net carrying value						
At 31 December 2016	**384,571**	**206,965**	**7,341**	**1,248**	**238,454**	**838,579**
At 31 December 2015	269,581	182,086	10,319	645	261,827	724,458

12 PROPERTY, PLANT AND EQUIPMENT, NET *(continued)*

The Group's property, plant and equipment are substantially located in the PRC. As at 31 December 2016, the Group has not obtained title certificate of certain of its buildings and plants with an aggregate carrying amount of approximately RMB52,248,000 (31 December 2015: RMB108,247,000). 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 2016, mine properties include capitalised stripping activity asset with a carrying amount of RMB213,992,000 (31 December 2015: RMB305,456,000).

As of 31 December 2016, certain of the Group's borrowings were secured by the Group's property, plant and equipment (see note 26(c)) with a carrying amount of RMB49,913,000 (31 December 2015: RMB nil).

13 CONSTRUCTION IN PROGRESS

	Stripping activity asset RMB'000	Other property and plant under construction/ installation RMB'000	Total RMB'000
At 1 January 2015	218,832	6,879	225,711
Additions	49,498	117,129	166,627
Transferred to property, plant and equipment *(note 12)*	(268,330)	(39,936)	(308,266)
Impairment losses *(note 17)*	–	(25,091)	(25,091)
At 31 December 2015	–	58,981	58,981
At 1 January 2016	**–**	**58,981**	**58,981**
Additions	**–**	**126,066**	**126,066**
Transferred to property, plant and equipment *(note 12)*	**–**	**(179,673)**	**(179,673)**
At 31 December 2016	**–**	**5,374**	**5,374**

14 LEASE PREPAYMENTS

	2016 RMB'000	2015 RMB'000
Cost:		
At 1 January	**210,727**	206,683
Additions	**–**	4,044
At 31 December	**210,727**	210,727
Accumulated amortisation:		
At 1 January	**(67,721)**	(52,752)
Charge for the year	**(15,971)**	(14,969)
At 31 December	**(83,692)**	(67,721)
Net carrying value:	**127,035**	143,006

Lease prepayments comprise interests in leasehold land held for own use under operating leases located in the PRC, with original lease periods over 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 leasehold land with a carrying amount of approximately RMB110,198,000 (31 December 2015: RMB125,506,000). The directors are of the opinion that the Group is entitled to lawfully and validly occupy or use of the above-mentioned leasehold land.

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

	2016 RMB'000	2015 RMB'000
In the PRC:		
– short leases	**21,222**	25,883
– medium-term leases	**105,813**	117,123
At 31 December	**127,035**	143,006

As of 31 December 2016, certain of the Group's borrowings were secured by the Group's land use rights (see note 26(c)) with a carrying amount of RMB11,301,000 (31 December 2015: RMB nil).

15 INTANGIBLE ASSETS

	Mining rights RMB'000	Hospital management right RMB'000	Total RMB'000
Cost:			
At 1 January 2015, 31 December 2015 and 1 January 2016	880,567	–	880,567
Addition through acquisition of business	–	187,000	187,000
At 31 December 2016	880,567	187,000	1,067,567
Accumulated amortisation:			
At 1 January 2015	(61,265)	–	(61,265)
Charge for the year	(32,467)	–	(32,467)
Impairment losses *(note 17)*	(184,162)	–	(184,162)
At 31 December 2016	(277,894)	–	(277,894)
At 1 January 2016	(277,894)	–	(277,894)
Charge for the year	(32,798)	(3,117)	(35,915)
At 31 December 2016	(310,692)	(3,117)	(313,809)
Net carrying value:			
At 31 December 2016	569,875	183,883	753,758
At 31 December 2015	602,673	–	602,673

Intangible assets represent mining rights and the related premium paid in relation to obtaining the mining rights, and the hospital management right newly acquired.

As at 31 December 2016, the Group is in process of renewing title certificates of two mining rights with an aggregate carrying amount of approximately RMB321,000,000 (31 December 2015: RMB nil). The directors are of the opinion that the Group is entitled to the legal titleship and ownership of the above-mentioned mining rights.

In connection with the Acquisition of Business (note 5), the Group obtained hospital management right through the Hospital Management Agreements. The management right was recognised at its fair value amounting to RMB187,000,000, and is amortised on a straight-line basis over 30 years as agreed in the Hospital Management Agreements.

As at 31 December 2016, the Group's borrowings were secured by the mining right of Laiyuan County Jiheng Mining Co., Ltd. (see note 26(c)) with a carrying amount of approximately RMB57,065,000 (31 December 2015: RMB81,020,000).

16 GOODWILL

	RMB'000
Cost:	
At 1 January 2015, 31 December 2015 and 1 January 2016	–
Addition through acquisition of business *(note 5)*	73,410
At 31 December 2016	73,410
Accumulated impairment losses:	
At 1 January 2015, 31 December 2015 and 1 January 2016	–
At 31 December 2016	–
Carrying amount:	
At 31 December 2015	–
At 31 December 2016	73,410

The business acquired as disclosed in note 5 is identified to be a CGU, to which the goodwill is allocated. The recoverable amount of this CGU is determined based on VIU calculation. The calculation uses cash flow projections based on financial budgets approved by management covering a six-year period. Cash flows beyond the six-year period are extrapolated using an estimated weighted average growth rate of 3% which is consistent with the forecasts included in industry reports. The cash flows are discounted using a discount rate of 15.0%. The discount rate used is after-tax and reflect specific risks relating to the business. Management believes that any reasonably possible change in the key assumptions on which the CGU's recoverable amount is based would not cause the CGU's carrying amount to exceed its recoverable amount.

The determination of VIU was most sensitive to the following assumptions:

(i) Number of patient and average income earned from each patient

Forecast number of patient and average income are based on management's estimates and are derived from Rongcheng Hospital's performance in prior year and long-term development plan building upon industry trends and external sources.

(ii) Gross margin on supply chain business

Average gross margin on sales of pharmaceutical products, medical devices and medical consumables is derived from publicly available market data of comparable peer companies, with appropriate adjustments made to reflect the risks and benefits specific to sales of traditional Chinese medicines and medical devices in remote counties.

16 GOODWILL *(continued)*

(iii) Discount rate

In arriving at the VIU, an after-tax discount rate of 15% was applied to the estimated future cash flows of the CGU as at 31 December 2016. This discount rate is derived from the acquired business's weighted average cost of capital ("WACC", with appropriate adjustments made to reflect the risks specific to the CGU). The WACC takes into account both debt and equity, weighted based on the comparable peer companies' average capital structure. The cost of equity is derived from the expected return on investment by the Group's investors based on publicly available market data of comparable peer companies. The cost of debt is based on the borrowing cost of interest-bearing borrowings of the Group that reflects the credit rating of the Group.

17 IMPAIRMENT LOSSES

As a result of continuing and weaker iron ore product price forecasts and consequent deferral of mine development plan in the second half of 2015, the Group identified indications of impairment in relation to Laiyuan County Jingyuancheng Mining Co., Ltd. ("Jingyuancheng Mining") and Laiyuan Xinxin Mining Co., Ltd. ("Xinxin Mining"). Consequently, a formal estimate of the recoverable amounts of the related CGUs was performed. For the purpose of the impairment testing, each of Jingyuancheng Mining and Xinxin Mining is regarded as a CGU.

In assessing whether an impairment is required, the carrying value of a CGU is compared with its recoverable amount. The recoverable amount is the higher of the CGU's FVLCD and VIU. Given the nature of the Group's activities, information on the fair value of a CGU is usually difficult to obtain unless negotiations with potential purchasers or similar transactions are taking place. As such, the recoverable amount of each CGU was determined based on VIU, which is the present value of the estimated future cash flows to be derived from the continuing use of the CGU and from its ultimate disposal. These cash flows were discounted using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the CGU.

For the year ended 31 December 2015, impairment losses of RMB184,384,000, RMB25,091,000 and RMB184,162,000 were recognised for property, plant and equipment (note 12), construction in progress (note 13) and intangible assets (note 15), respectively.

The directors have been closely monitoring the market situation since then, and believe that there has been no indication of significant variance with those key assumptions used in the estimation made as at 31 December 2015. The directors are of the opinion that the impairment provision is adequate as at 31 December 2016 and no additional or reversal of impairment provision is needed in respect of the Group's non-financial assets.

(Expressed in Renminbi unless otherwise indicated)

18 SUBSIDIARIES OF THE GROUP

The following list contains the particular of subsidiaries of the Group as at 31 December 2016. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ establishment and business	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by subsidiaries	
Hengshi Development International Limited 恒實發展國際有限公司	Hong Kong	100 shares of HKD1.00 each	100%	100%	–	Investment holding
Sichuan Panshi Industrial Co., Ltd. # 四川盤實實業有限公司	PRC	RMB 150,000,000	100%	–	100%	Investment holding
Sichuan Hengwen Industrial Co., Ltd. # 四川恒穩實業有限公司	PRC	RMB 120,000,000	100%	–	100%	Investment holding
Laiyuan County Aowei Mining Investments Co., Ltd. # 淶源縣奧威礦業投資有限公司	PRC	RMB 120,000,000	100%	–	100%	Investment holding
Laiyuan County Jingyuancheng Mining Co., Ltd.# 淶源縣京源城礦業有限公司	PRC	RMB 160,000,000	100%	–	100%	Mining, processing and sales of iron ore products
Laiyuan Xinxin Mining Co., Ltd. # 淶源鑫鑫礦業有限公司	PRC	RMB 50,000,000	100%	–	100%	Mining, processing and sale of iron ore products
Laiyuan County Jiheng Mining Co., Ltd.# 淶源縣冀恒礦業有限公司	PRC	RMB 100,000,000	100%	–	100%	Mining, processing and sale of iron ore products
Xinan Investments Limited 熹南投資有限公司	BVI	1 share of USD1.00 each	100%	100%	–	Investment holding
Xinan Limited 熹南有限公司	Hong Kong	1 share of HKD1.00 each	100%	–	100%	Investment holding

18 SUBSIDIARIES OF THE GROUP *(continued)*

Name of company	Place of incorporation/ establishment and business	Particulars of issued and paid up capital	Proportion of ownership interest Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
Baoding Xinan Medical Management Consulting Co., Ltd.# 保定熹南醫療管理咨詢有限公司	PRC	RMB 5,000,000	100%	–	100%	Hospital management
Baoding Aoxiang Property Services Co., Ltd.# 保定奥祥物業服務有限公司	PRC	RMB 1,000,000	100%	–	100%	Property management
Baoding Xiang'an Pharmaceutical Sales Co., Ltd.# 保定翔安藥品銷售有限公司	PRC	RMB 4,000,000	100%	–	100%	Supply chain business

The official names of the entities are in Chinese. The English names are for identification purpose only.

19 LONG-TERM RECEIVABLES

	2016 RMB'000	2015 RMB'000
Environmental reclamation deposits	**42,960**	40,960
Receivables from Rongcheng Hospital	**11,000**	–
	53,960	40,960

The balances represent a five-year loan to Rongcheng County Hospital maturing in year 2021, which is unsecured and interest-free, and environmental reclamation deposits placed with government in respect of the Group's reclamation obligations for the closure of mines. All of the balances are not expected to be repaid/refunded within the next 12 months.

20 PREPAYMENTS

	2016 RMB'000	2015 RMB'000
Prepayments for construction work and equipment purchases	**3,576**	3,382

(Expressed in Renminbi unless otherwise indicated)

21 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2016 RMB'000	2015 RMB'000
Weakly mineralised wall rock#	**11,861**	19,467
Iron ores	**22,949**	37,759
Preliminary concentrates	**40,687**	8,431
Iron ore concentrates	**9,339**	28,120
	84,836	93,777
Consumables and supplies	**21,311**	21,275
	106,147	115,052

Weakly mineralised wall rock represents sub-graded mineral materials.

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2016 RMB'000	2015 RMB'000
Carrying amount of inventories sold	**485,174**	487,343

22 TRADE AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Accounts receivable	**64,652**	92,252
Bills receivable	**4,000**	–
	68,652	92,252
Less: allowance for doubtful debts *(note 6(c))*	**286**	–
Trade receivables *(note (a))*	**68,366**	92,252
Other receivables *(note (d))*	**55,322**	117,268
	123,688	209,520

22 TRADE AND OTHER RECEIVABLES *(continued)*

(a) Ageing analysis

At the end of reporting period, the ageing analysis of trade receivables based on the invoice date (net of allowance for doubtful debts, if any) is as follows:

	2016 RMB'000	2015 RMB'000
Within 6 months	**54,057**	91,966
Over 6 months but less than 1 year	**14,230**	286
Over 1 year	**79**	–
	68,366	92,252

(b) Impairment of trade receivables

Impairment losses in respect of trade 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 receivables directly (see note 2(k)(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:

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	**68,287**	91,966
Over 6 months pass due	**79**	286
	68,366	92,252

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

Receivables that were past due but not impaired relate to an independent customer that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

22 TRADE AND OTHER RECEIVABLES *(continued)*

(d) Other receivables

	2016 RMB'000	2015 RMB'000
Prepayments and deposits#	**49,532**	114,759
Value added tax recoverable	**1,152**	1,810
Amounts due from related parties *(note 34(b))*	**422**	3
Others	**4,216**	696
	55,322	117,268

Prepayments and deposits mainly represent advance payments made to the Group's mining contractors. As at 31 December 2016, prepayments to Tangshan Hengsheng Blasting Engineering Co., Ltd. for blasting services, to Laiyuan County Huiguang Logistics Co., Ltd. for on-site loading services and to Laiyuan County Ao Tong Transportation Co., Ltd. for transportation services amounted to RMB5,583,000, RMB17,065,000 and RMB14,697,000, respectively (31 December 2015: RMB31,723,000, RMB23,693,000 and RMB45,435,000, respectively).

Based on agreements with the respective mining contractors, all of which are independent third parties, the prepaid amounts are interest free and the Group anticipates the amounts to be subsequently utilised along with the provision of related services within one year.

As at 31 December 2016, other than deposits amounted to RMB2,685,000 (31 December 2015: RMB1,935,000), which are included in prepayments and deposits, all of the other receivables were aged within one year and were expected to be recovered or expensed off within one year.

23 OTHER FINANCIAL ASSETS

As at 31 December 2016, the Group had investment in a wealth management product issued by a reputable bank in the PRC with an aggregated principle amount of RMB48,000,000. There are no fixed or determinable returns of this bank wealth management product and the principal is not protected. The financial assets are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. On 3 January 2017, the Group redeemed such investment with no material gain or loss recognised.

24 RESTRICTED DEPOSITS

As at 31 December 2016, restricted deposits mainly represent six-month bank deposits, deposits pledged as guarantee for bills payable and other deposits amounting to RMB257,018,000, RMB40,000,000 and RMB1,030,000, respectively (31 December 2015: RMB nil).

25 CASH AND CASH EQUIVALENTS

	2016 RMB'000	2015 RMB'000
Cash on hand	**117**	57
Cash at banks	**46,460**	59,438
	46,577	59,495

26 BORROWINGS

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

	2016		2015	
	Interest rate per annum %	**RMB'000**	Interest rate per annum %	RMB'000
Renminbi denominated				
Short-term borrowings:				
– secured bank loans#	**4.35~6.53**	**310,000**	5.36	100,000
Current portion of long-term borrowings:				
– secured bank loans#	**–**	**–**	5.93	100,000
		310,000		200,000

\# As at 31 December 2016, the Group's bank loans of RMB200,000,000 and RMB110,000,000 were secured by the Group's mining right, land use rights and properties (see notes 12, 14, and 15) and by the land use rights and properties of a related party of the Group (see note 34(b)(iii)), respectively. As at 31 December 2015, the Group's bank loans were secured by the Group's mining right.

26 BORROWINGS *(continued)*

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

	2016 RMB'000	2015 RMB'000
Within 1 year	310,000	200,000

(c) The Group's banking facilities comprise:

	2016 RMB'000	2015 RMB'000
Secured by:		
Mining rights, land use rights and properties of the Group *(notes 12, 14 and 15)*	243,000	220,000
Land and properties of a related party *(note 34(b)(iii))*	160,000	160,000
	403,000	380,000

As at 31 December 2016, the above banking facilities of the Group were utilised to the extent of RMB350,000,000, including bank loan facilities of RMB310,000,000 and bank acceptance bill facilities of RMB40,000,000, respectively (31 December 2015: RMB200,000,000, including bank loan facilities of RMB200,000,000 and bank acceptance bill facilities of RMB nil).

The Group's banking facilities are subject to the fulfilment of covenants relating to certain of the Group's financial statement ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As of the end of 2016, none of the covenants relating to drawn down facilities had been breached.

27 TRADE AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables	**66,713**	39,974
Bills payables	**40,000**	–
Other taxes payable	**21,431**	12,359
Receipts in advance	**18,267**	18,052
Payables for construction work, equipment purchase and others	**8,263**	30,284
Amounts due to related parties *(note 34(b))*	**–**	1,780
Interest payables	**440**	–
Others#	**25,296**	28,366
	180,410	130,815

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

As at 31 December 2016, all trade payables are due and payable on presentation or within one year. All of the other payables were expected to be settled within one year or are repayable on demand.

28 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2016 RMB'000	2015 RMB'000
Income tax payable at 1 January	**8,868**	18,839
Provision for the year *(note 7(a))*	**48,911**	44,711
Income tax paid	**(29,785)**	(54,682)
Income tax payable at 31 December	**27,994**	8,868

28 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

(b) Deferred tax assets and liabilities recognised

(i) Movement of each component of deferred tax assets and liabilities

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Accrued expenses RMB'000	Impairment losses on non-current assets RMB'000	Long-term payables RMB'000	Safety production fund RMB'000	Depreciation and amortisation RMB'000	Accrued reclamation obligations RMB'000	Provision for doubtful debts RMB'000	Undistributed profits of subsidiaries in Mainland China RMB'000	Deferred tax liabilities arising from business combination RMB'000	Total RMB'000
At 1 January 2015	2,893	–	7,156	(681)	(139)	2,186	–	(11,718)	–	(303)
Credited/(charged) to profit or loss *(note 7(a))*	716	98,409	(4,834)	403	727	480	–	–	–	95,901
Credited to reserves	–	–	–	–	–	–	–	11,718	–	11,718
At 31 December 2015 and 1 January 2016	3,609	98,409	2,322	(278)	588	2,666	–	–	–	107,316
Addition through acquisition of business *(note 5)*	–	–	–	–	–	–	–	–	(46,750)	(46,750)
Credited to profit or loss *(note 7(a))*	9,016	–	983	13	1,456	3,307	72	–	780	15,627
Charged to reserves	–	–	–	–	–	–	–	(4,120)	–	(4,120)
At 31 December 2016	12,625	98,409	3,305	(265)	2,044	5,973	72	(4,120)	(45,970)	72,073

(ii) Reconciliation to the consolidated statement of financial position

	2016 RMB'000	2015 RMB'000
Net deferred tax assets	**122,163**	107,316
Net deferred tax liabilities	**(50,090)**	–
	72,073	107,316

28 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(r), the Group has not recognised deferred tax assets in respect of tax losses of RMB200,983,000 as at 31 December 2016 (31 December 2015: RMB164,188,000) 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 RMB123,484,000 (31 December 2015: RMB125,783,000) 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:

	2016 RMB'000	2015 RMB'000
Year of expiry:		
2017	12,239	12,239
2018	978	978
2019	7,784	7,784
2020	74,266	74,266
2021	17,006	–
	112,273	95,267

(d) Deferred tax liabilities not recognised

As at 31 December 2016, temporary differences in relation to undistributed profits of subsidiaries in Mainland China since 1 January 2008 and up to the public listing of the Company's shares on the Stock Exchange amounted to RMB554,346,000(31 December 2015:RMB554,346,000). Relevant deferred tax liabilities of RMB27,717,000 (31 December 2015: RMB27,717,000) have not been recognised at the end of the respective reporting periods in respect of the withholding income tax (see note 7(b)(iv)) 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.

29 LONG-TERM PAYABLES

	2016 RMB'000	2015 RMB'000
Consideration payables for the acquisition of mining rights	**243,208**	235,671
Less: Current portion of long-term payables	**45,501**	5,786
	197,707	229,885

In March 2012 and January 2013, the Group acquired the Gufen Mine, Wang'ergou Mine, Shuanmazhuang Mine and Zhijiazhuang Mine from Hebei Provincial Department of Land and Resources for considerations of RMB365,545,000 in aggregate and repayable by annual instalments with original payment periods over five to seven years.

In accordance with Ji Guo Tu Zi Han No. [2015]1011 issued on 11 November 2015, Hebei Provincial Department of Land and Resources approved a revised annual instalment schedule in relation to the remaining parts of the above mining right considerable payables and the payment periods were extended to 2022.

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

	2016 RMB'000	2015 RMB'000
Within 1 year	**45,501**	5,786
After 1 year but within 2 years	**45,624**	43,084
After 2 years but within 5 years	**130,043**	127,188
After 5 years	**22,040**	59,613
	243,208	235,671

30 ACCRUED RECLAMATION OBLIGATIONS

	2016 RMB'000	2015 RMB'000
At 1 January	**55,485**	47,858
Additions	**–**	5,706
Accretion expenses *(note 6(a))*	**2,719**	2,345
Utilised during the year	**(878)**	(424)
At 31 December	**57,326**	55,485
Less: current portion of accrued reclamation obligations	**5,720**	6,399
	51,606	49,086

30 ACCRUED RECLAMATION OBLIGATIONS *(continued)*

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. The Group's management believes that the accrued reclamation obligations at the end of the respective reporting periods are adequate and appropriate. The accrual is based on estimates and therefore, the ultimate liability may exceed or be less than such estimate.

31 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 31 (c))*	Share premium RMB'000 *(note 31 (d))*	Exchange reserve RMB'000 *(note 31(d))*	Other reserve RMB'000 *(note 31(d))*	Retained profits RMB'000	Total equity RMB'000
Balance at 1 January 2015	120	928,309	(1,967)	150,576	(27,176)	1,049,862
Changes in equity for 2015:						
Total comprehensive income for the year	–	–	397	–	(3,566)	(3,169)
Balance at 31 December 2015 and 1 January 2016	120	928,309	(1,570)	150,576	(30,742)	1,046,693
Changes in equity for 2016:						
Total comprehensive income for the year	–	–	1,929	–	(4,054)	(2,125)
Shares issued for acquisition of business	11	214,331	–	–	–	214,342
Balance at 31 December 2016	131	1,142,640	359	150,576	(34,796)	1,258,910

(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 2016 (2015: Nil).

31 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(c) Share capital

	2016		2015	
	Number of shares '000	RMB'000 (equivalent)	Number of shares '000	RMB'000 (equivalent)
Ordinary shares, issued and fully paid:				
At 1 January	1,507,843	120	1,507,843	120
Shares issued for acquisition of business	127,487	11	–	–
At 31 December	1,635,330	131	1,507,843	120

On 13 July 2016, 127,486,892 shares with par value of HKD0.0001 per share were issued and allotted to Jovial Link as the consideration for acquisition of business (note 5).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(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 respective 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 utilised 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.

31 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(d) Nature and purpose of reserves *(continued)*

(iii) Specific reserve

Pursuant to the relevant PRC regulations, appropriation for safety production and other related expenditures are accrued by the Group at fixed rates based on production volume (the "safety production fund"). The Group is required to make a transfer for the appropriation of safety production fund from retained earnings to a specific reserve. The appropriation for safety production fund may cease if the balance of the specific reserve at the beginning of the year has reached 5% of the revenue of the relevant PRC subsidiaries in the previous year. The safety production fund could be utilised when expenses or capital expenditures on safety production measures are incurred. The amount of safety production fund utilised would be transferred from specific 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 to the Group's presentation currency. The reserve is dealt with in accordance with the accounting policy set out in note 2(w).

(v) Other reserve

The other reserve comprises the following:

- the difference between the net assets of subsidiaries acquired 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.

(e) Distributability of reserves

Pursuant to the Cayman Companies Law, Chapter 22 (2012 Revision, as consolidated and reserved) of the Cayman Islands, share premium of the Company is also a distributable reserve to the shareholders. As at 31 December 2016, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB1,107,844,000 (31 December 2015: RMB897,567,000).

(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 2016 was 11.92% (31 December 2015: 9.69%).

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES MEASUREMENT

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

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 banks and trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

All of the Group's cash at banks 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 180 days is granted to customers that have a good track record with the Group and in good credit condition. The Group seeks to maintain tight control over those outstanding balances in order to manage credit risk. Management monitors the balances on a regular basis and takes appropriate actions against overdue balances, if any. 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 2016, 57.51% (31 December 2015: 99.17%) of trade receivables was due from the Group's five largest customers.

(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.

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES MEASUREMENT *(continued)*

(b) Liquidity risk *(continued)*

The following tables show the remaining contractual maturities at the end of the reporting period 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 end of the reporting period) and the earliest date the Group can be required to pay:

	2016 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 *(note 26)*	**310,000**	**320,184**	**320,184**	**–**	**–**	**–**
Trade and other payables *(note 27)*	**180,410**	**180,410**	**180,410**	**–**	**–**	**–**
Long-term payables *(note 29)*	**243,208**	**290,755**	**48,052**	**50,411**	**161,658**	**30,634**
Accrued reclamation obligations *(note 30)*	**57,326**	**58,950**	**6,000**	**7,316**	**14,806**	**30,828**
	790,944	**850,299**	**554,646**	**57,727**	**176,464**	**61,462**

	2015 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 *(note 26)*	200,000	208,610	208,610	–	–	–
Trade and other payables *(note 27)*	130,815	130,815	130,815	–	–	–
Long-term payables *(note 29)*	235,671	296,863	6,110	48,052	158,303	84,398
Accrued reclamation obligations *(note 30)*	55,485	58,463	6,712	6,000	16,712	29,039
	621,971	694,751	352,247	54,052	175,015	113,437

(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 26.

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES MEASUREMENT *(continued)*

(d) Currency risk

The Group is exposed to currency risk primarily through financing activities which give rise to cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The Group's principal business is located in the PRC and the principal operation and transactions are carried out in RMB. Substantially all of the Group's assets and liabilities are denominated in RMB. Since RMB is not freely convertible, there is a risk that Chinese government may take actions to affect the exchange rate exposure, which may affect our net assets, earnings and any dividends it declares if such dividends are translated into foreign currency. The Group had no hedging in respect of the exchange rate risk and have not entered into any derivative instruments to manage foreign exchange fluctuations. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purpose, the amounts of the exposure are shown in RMB, translated using the spot rate at the end of the reporting period.

	2016		2015	
	USD'000	**RMB'000**	USD'000	RMB'000
Cash and cash equivalents	**580**	**1,110**	1,837	21,205

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remain constant.

	2016			2015		
	Increase/ (decrease) exchange rates %	**Effect on profit after tax and retained profits RMB'000**	**Effect on other components of equity RMB'000**	Increase/ (decrease) exchange rates %	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
United States dollars	**5**	**29**	**–**	5	92	–
	(5)	**(29)**	**–**	(5)	(92)	–
Renminbi	**5**	**56**	**(56)**	5	1060	(1060)
	(5)	**(56)**	**56**	(5)	(1060)	1060

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES MEASUREMENT *(continued)*

(e) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1: valuation is based on unadjusted quoted prices in active markets for identical financial assets and liabilities.
- Level 2: valuation is based on inputs (other than quoted prices included within Level 1) that are observable for the financial asset or liability, either directly or indirectly.
- Level 3: valuations is based on unobservable inputs.

	2016 RMB'000	2015 RMB'000
Level 3		
– unlisted available-for-sale debt securities	**48,000**	–
	48,000	–

During the year ended 31 December 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2015: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The fair values of available-for-sale debt securities are determined using the discounted cash flow analysis. The significant unobservable input in the fair value measurement is the discount rate. As the maturities of the Group's available-for-sale debt securities are less than 12 months, the directors are of the opinion that the impact of discounting would be insignificant. Any increase/decrease in the discount rate at 31 December 2016 would not have significant impact on the Group's other comprehensive income.

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES MEASUREMENT *(continued)*

(e) Fair value measurement *(continued)*

(ii) Fair value of financial assets and liabilities carried at other than fair value

Apart from the available-for-sale securities measured at fair value, all of the Group's other financial assets and liabilities are initially recognised at the fair value of consideration paid or received and subsequently carried at amortised costs, as appropriate.

The financial assets and liabilities are presented by class in the tables below at their carrying amounts, which generally approximate to fair values except for long-term receivables and borrowings as indicated below.

	2016			2015		
	Loans and receivables RMB'000	Other financial assets and liabilities at amortised costs RMB'000	Total RMB'000	Loans and receivables RMB'000	Other financial assets and liabilities at amortised costs RMB'000	Total RMB'000
Cash and cash equivalents *(note (a))*	46,577	–	46,577	59,495	–	59,495
Restricted deposits *(note (a))*	298,048	–	298,048	–	–	–
Trade and other receivables *(note (b))*	123,688	–	123,688	209,520	–	209,520
Long-term receivables *(note (a))*	53,960	–	53,960	40,960	–	40,960
Trade and other payables *(note (b))*	–	(180,410)	(180,410)	–	(130,815)	(130,815)
Borrowings *(note (a))*	–	(310,000)	(310,000)	–	(200,000)	(200,000)
Total financial assets/(liabilities) carried at amortised costs	522,273	(490,410)	31,863	309,975	(330,815)	(20,840)
Total financial assets carried at fair value	48,000	–	48,000	–	–	–
Non-financial assets/(liabilities)	2,030,042	(378,618)	1,651,424	1,754,868	(300,024)	1,454,844
Total assets/(liabilities)	2,600,315	(869,028)	1,731,287	2,064,843	(630,839)	1,434,004

Notes:

(a) The fair values of the Group's cash and cash equivalents, restricted deposits, long-term receivables and borrowings approximate their carrying amounts as a result of their short maturity or because they carry floating rates of interest.

(b) The carrying amounts of trade and other receivables and trade and other payables are a reasonable approximation of their fair values.

33 COMMITMENTS AND CONTINGENCIES

(a) Capital commitments outstanding at 31 December 2016 not provided for in the financial statements were as follows:

	2016 RMB'000	2015 RMB'000
Contracted for		
– property, plant and equipment	**3,982**	3,168

(b) At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2016 RMB'000	2015 RMB'000
Within 1 year	**4,463**	3,827
After 1 year but within 5 years	**9,008**	–
	13,471	3,827

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 clean-up efforts;

(iii) varying costs of alternative remediation strategies;

(iv) changes in environmental remediation requirements; and

(v) the identification of new remediation sites.

33 COMMITMENTS AND CONTINGENCIES *(continued)*

(c) Environmental contingencies *(continued)*

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 Group is subject to certain levies (mineral resources compensation, water and soil loss compensation and pollutant discharge fee, etc.) imposed by relevant government authorities in accordance with relevant PRC laws and regulations. Under such laws and regulations, the Group has fully fulfilled their responsibilities in paying the respective levies during the years presented. The directors are of the opinion that the Group had no other material obligations or liabilities of such levies at the end of the reporting period.

34 MATERIAL RELATED PARTY TRANSACTIONS

(a) 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:

	2016 **RMB'000**	2015 RMB'000
Basic salaries, allowances and benefits in kind	**6,711**	7,239
Discretionary bonus	**–**	–
Retirement scheme contributions	**79**	132
	6,790	7,371

Total remuneration is included in "staff costs" (see note 6(b)).

34 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(b) Other related party transactions

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

Name of party	Relationship
Mr. Li Yanjun	The ultimate controller
Hebei Aowei Industrial Group Co., Ltd.	A company ultimately owned by Mr. Li Yanjun
Aowei International Development Limited	A company ultimately owned by Mr. Li Yanjun and Mr. Leung Hongying Li Ziwei
Hengshi Holdings Limited	A company ultimately owned by Mr. Li Yanjun and Mr. Leung Hongying Li Ziwei
Hengshi International Investments Limited	A company ultimately owned by Mr. Li Yanjun and Mr. Leung Hongying Li Ziwei
Beijing Tong Da Guang Yue Trading Co., Ltd.	A company jointly owned by Mr. Li Yanjun

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

	2016 RMB'000	2015 RMB'000
Property leasing charges *(note (i))*	**1,950**	1,900
Advances paid to related parties *(note (ii))*	**1,386**	433

The outstanding balances arising from the above transactions at the end of the reporting period are as follows:

	2016 RMB'000	2015 RMB'000
Amounts due to related parties *(note (i))*	**–**	1,780
Amounts due from related parties *(note (ii))*	**422**	3

Notes:

(i) Property leasing charges represent office rental paid and payable to Hebei Aowei Industrial Group Co., Ltd..

(ii) Advances to related parties represent payments made on behalf of Hengshi Holdings Limited, Aowei International Development Limited, Hengshi International Investments Limited and Mr. Li Yanjun. The amounts are unsecured, interest free and have no fixed terms of repayment.

(iii) On 15 December 2015, the Group entered into a bank facility agreement with the aggregate amount of RMB160.0 million, including bank loan facilities of RMB110.0 million and bank acceptance bill facilities of RMB50.0 million, respectively. The bank facility agreement has a term of 12 months from the date of drawdown and is guaranteed by Laiyuan County Aowei Mining Investments Co., Ltd., Laiyuan County Jingyuancheng Mining Co., Ltd. and Laiyuan Xinxin Mining Co., Ltd., as well as the lands and properties of Beijing Tong Da Guang Yue Trading Co., Ltd. (a company jointly owned by Mr. Li Yanjun).

34 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(b) Other related party transactions *(continued)*

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.

(c) Commitments with related parties

Pursuant to the property leasing agreement entered into by the Company and Hebei Aowei Industrial Group Co., Ltd., the Company rents properties from Hebei Aowei Industrial Group Co., Ltd. as office premises for the years ended 31 December 2015 and 2016 and the years ending 31 December 2019.

As at the end of the respective reporting periods, the estimated total future minimum lease payments to Hebei Aowei Industrial Group Co., Ltd. under non-cancellable operating leases were payable as follows:

	2016 **RMB'000**	2015 RMB'000
Within 1 year	**4,270**	1,950
After 1 year but within 5 years	**8,540**	–
	12,810	1,950

(d) Applicability of the Listing Rules relating to connected transactions

Certain related party transactions in respect of note 34(b) and (c) above constitute connected transactions or continuing 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 "Connected Transactions and Continuing Connected Transactions" of the Report of the Directors.

35 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

Approved and authorised for issue by the board of directors on 16 March 2017.

	31 December 2016 RMB'000	31 December 2015 RMB'000
Non-current assets		
Investment in a subsidiary	369,419	150,576
Total non-current assets	369,419	150,576
Current assets		
Other receivables	874,071	866,689
Cash and cash equivalents	16,355	30,437
Total current assets	890,426	897,126
Current liabilities		
Other payables	935	1,009
Total current liabilities	935	1,009
Net current assets	889,491	896,117
Total assets less current liabilities	1,258,910	1,046,693
NET ASSETS	1,258,910	1,046,693
CAPITAL AND RESERVES		
Share capital *(note 31(c))*	131	120
Reserves *(note 31(a))*	1,258,779	1,046,573
TOTAL EQUITY	1,258,910	1,046,693

Li Yanjun
Chairman and Executive Director

Leung Hongying Li Ziwei
Vice Chairman and Executive Director

(Expressed in Renminbi unless otherwise indicated)

36 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

As at 31 December 2016, the directors considered the immediate parent and ultimate controlling party of the Group to be Hengshi International Investments Limited and Mr. Li Yanjun and Mr. Leung Hongying Li Ziwei, respectively. Hengshi International Investments Limited does not produce financial statements available for public use.

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

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 2016 and which have not been adopted in these financial statements. These included the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IAS 7, *Statement of cash flows: Disclosure initiative*	1 January 2017
Amendments to IAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*	1 January 2017
IFRS 9, *Financial instruments*	1 January 2018
IFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to IFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
IFRS 16, *Leases*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it is concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements. As the Group has not completed its assessment, further impacts may be identified in due cause and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.